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School of Engineering

Challenges in Cross-border Real Estate Investments – Finnish Perspective

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Bachelor of Science in Technology
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Abstract of master's thesis

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Abstract

In the last decades, globalisation has effected strongly on the real estate market. Real estate investors all over the world have extended their area of operations beyond their own local markets. Foreign investors came to the Finnish real estate market in the early 21st century. The highest peak of foreign investors in the Finnish real estate market was reached in 2007. In 2008, the Finnish real estate market started to quiet down. From 2009, the share of foreign investors started growing again and in 2015 the share was already 46 per cent of the real estate transaction volume in Finland.

The goal of this thesis is to find out what are the challenges foreign investors face when investing in Finnish real estate. This thesis includes a literature review which aims to find out current research concerning cross-border investments and its challenges, first in general and after that from the perspective of the Finnish real estate market. The literature review also answers the question why do investors invest in cross-border investments in the first place.

The research's empirical part is done by a survey study, which was sent to 75 foreign investors active in the Finnish real estate market. 25 responses were received, which amounts to 33 per cent response rate. The goal of the empirical research is to find out what challenges, of those identified in the literature review, does foreign investors highlight in the Finnish property market. The challenge groups covered in the thesis include: transaction costs, information disadvantages, political risks, economical risks, currency risk, liquidity, execution risks and other challenges.

The main conclusions of the thesis are that the most challenging factors for foreign investors in Finland are liquidity, which is strongly linked to market size. Economical risk was also experienced as a notable challenge when investing in the Finnish real estate market. The least challenging factors where currency risks and political risk. In addition, it was discovered that foreign investors that do not have employees in Finland face more challenges than the foreign investors that do have employees in Finland.

Keywords Finnish real estate market, challenge, cross-border real estate investment, foreign investor

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Tiivistelmä

Viimeisten vuosikymmenien aikana globalisaatio on vaikuttanut voimakkaasti kiinteistömarkkinoihin. Kiinteistösijoittajat ympäri maailmaa ovat laajentaneet kohdemarkkinoitaan kotimarkkinoidensa ulkopuolelle. Ulkomaiset sijoittajat saapuivat Suomen kiinteistömarkkinaan vuosituhannen vaihteessa. Ulkomaisten sijoittajien osuus oli korkeimmillaan vuonna 2007, mutta laski sen jälkeen, kun Suomen kiinteistömarkkina hiljentyi hetkellisesti. Osuus alkoi jälleen kasvaa vuoden 2009 aikana ja vuonna 2015 osuus tavoitti jo 46 prosenttia transaktiovolyymistä.

Työn tavoitteena on selvittää ulkomaisten sijoittajien kohtaamat haasteet Suomen kiinteistömarkkinoilla. Työ sisältää kirjallisuuskatsauksen, jonka tavoitteena on selvittää nykyinen tietämys ulkomaan kiinteistösijoituksista ja sen tuomista haasteista, ensin yleisellä tasolla ja sen jälkeen Suomen näkökulmasta. Kirjallisuuskatsauksessa selvitetään myös miksi sijoittajat haluavat sijoittaa ulkomaille.

Työn empiirinen osuus on toteutettu kyselynä, joka lähetettiin 75 ulkomaiselle sijoittajalle. Kyselyyn saatiin 25 vastausta eli vastausprosentti oli 33 %. Kyselyn tavoitteena on tunnistaa, mitä haasteita ulkomaiset sijoittajat korostavat niistä haasteista, jotka tunnistettiin kirjallisuuskatsauksessa. Kyselyssä käsiteltävät haasteluokat ovat: transaktiokustannukset, tiedon puute, poliittinen riski, taloudellinen riski, valuuttariski, likviditeetti, toteutus riskit sekä muut riskit.

Tutkimuksen perusteella ulkomaiset kiinteistösijoittavat kokevat likviditeetti ongelmat kaikkien suurimpana haasteena Suomen kiinteistömarkkinoilla. Myös markkinan koko, joka liittyy vahvasti likviditeettiin, koetaan haastavana. Haastavimpiin tekijöihin kuuluu myös taloudellinen riski Suomessa. Vähiten haastavana koetaan poliittinen riski sekä valuuttariski. Lisäksi tutkimuksen perusteella voidaan sanoa, että ulkomaiset sijoittajat joilla ei ole työntekijöitä Suomessa kokevat enemmän haasteita Suomen kiinteistömarkkinoilla, kuin ne ulkomaiset sijoittajat, joilla on työntekijöitä Suomessa.

Avainsanat Suomen kiinteistömarkkina, haaste, ulkomaan kiinteistösijoitus, ulkomainen sijoittaja

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I have become so much richer during my studies, not counting by money, but by friends, memories, new experiences and knowledge. I feel that I can move on to working life with a more secure feeling.

Being a university student has been such fun. One of the happiest memories during my studies was the morning when I got my teekkari cap. I was so tired after we had been up all night, but the joy of finishing my first year studies, being with friends and watching the sunrise made me feel really happy. Now I'm closing the circle by graduating and I feel nostalgic and the same time really happy for ending my studies.

I will never forget my time as a member of Maanmittarikilta and especially being part of 2013, 2014 and 2015 boards. Being part of this amazing guild has given me more than I could have ever even imagined.

My sincere gratitude belongs to my family and friends for their continuous support during this process. Especially thank you for my father Dr. Gilad Sperling for helping me with this thesis and for my mother for feeding and caring for me. I am also grateful for my (hopefully) husband to be who has supported me along the way.

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Espoo 29th May 2017

Ella Sperling

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1 Introduction

1.1 Background

In the last decades, globalisation has effected strongly on the real estate market, for instance, closed economies have opened and taxation and property ownership have been liberalized. Real estate investors all over the world have extended their area of operations beyond their own local markets. (Bardhan & Kroll 2007.) New markets, such as Finland, became potential investment markets as the international activity grew all over the world (Falkenbach & Toivonen 2010).

In 1993, Finland released the most essential restrictions made over foreign ownerships and in 1999 Finland, among the first countries, joined the euro area. These and many other reasons brought foreign investors to the Finnish real estate market in the early 21st century. (Rajakallio et al. 2009, 10.) Before this, Finland's real estate market had only a handful of investors, which were all domestic. The arrival of foreign investors changed the Finnish real estate market and forced the domestic investors to change their mode of operations. (Toivonen 2011, 59-60.) Foreign investors have brought new strategies and practises to the Finnish property market such as portfolio transactions, investing outside growth centres and investing in operating conditions of the tenant for ensuring rental returns. After the arrival of foreign investors, the use of leverage started growing and preferences for several types of transactions and real estate grew. (Koponen 2007, 27.) Thus, foreign investors introduced new and more organised ways to operate.

Figure 1 presents real estate transaction volume in Finland. The dark blue pillars represent the portion of foreign investors and the lighter blue the portion of domestic investors. The first major real estate transaction made by foreign investors in Finland occurred in 2002 when Dutch Wereldhave acquired shopping centre Itäkeskus. From that began the strong flow of foreign investors in to the Finnish real estate market, which can also be seen in the figure. (Koponen 2007, 27.)

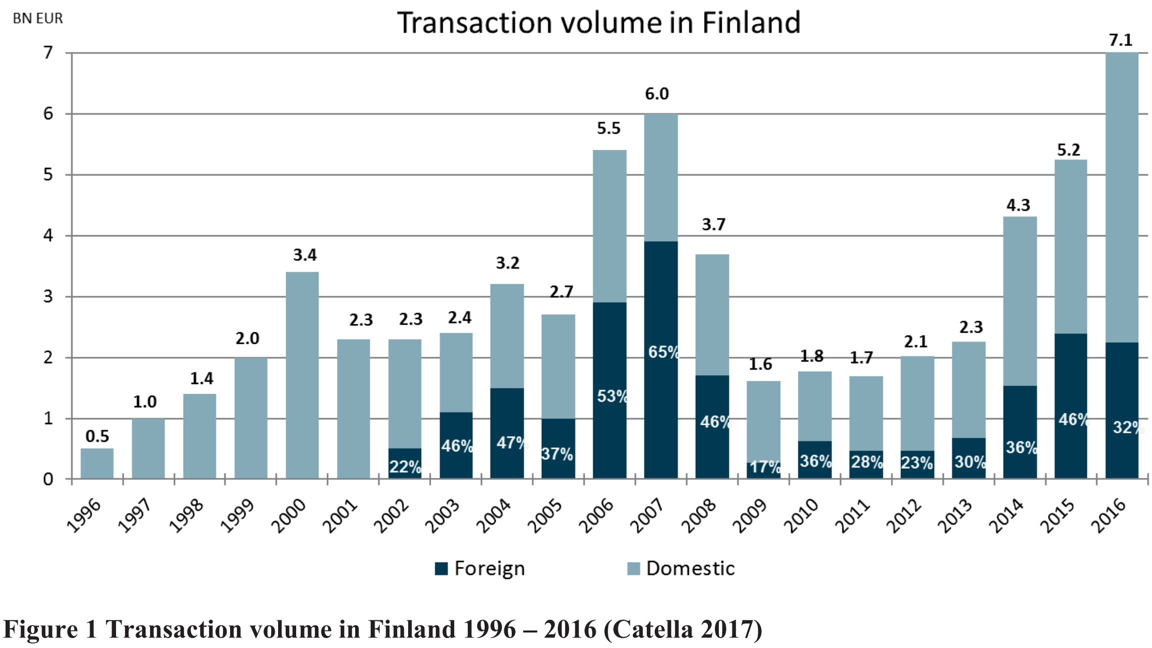

Figure 1 Transaction volume in Finland 1996 – 2016 (Catella 2017)

The highest peak of foreign investors in the Finnish real estate market was reached in 2007 when the portion of foreign investors was 65 per cent of the whole transaction volume in Finland, as can be seen in Figure 1. In 2008, the Finnish real estate market started to quiet down. From 2009, the share of foreign investors started growing again and in 2015 the share was already 46 per cent of the real estate transaction volume in Finland. (Catella 2016a, 4.) When observing Figure 1, it can be noticed that even though the all-time high in transaction volume was reached in 2016, the proportion of foreign investors was lower than in 2015. Still foreign investors were equally active in the market in 2016 compared to 2015 when measured in sum of money.

The transaction volume is not the only record broken in 2016. Figure 2 represent transaction volume, proportion of foreign investors and the capital seeking for real estate investments in Finland. The amount of capital searching for real estate investments in Finland is record high in 2016 and substantially higher than in 2007. This is one reason that the record high transaction volume was reached in 2016. Still the proportion of foreign investors was much higher in 2007 than in 2016. In RAKLI-KTI Property Barometer, which was executed in October 2016 the investors in the Finnish market believed that the demand of foreign investors will continue to grow (KTI 2016c, 5). When examining Figure 2 it can also be noticed that the market situation at the moment is very exceptional in Finland. The same phenomena is also global or at least on European level as the amount of capital searching for real estate investments in Europe is almost tripled during ten last years (Catella 2017 b,11).

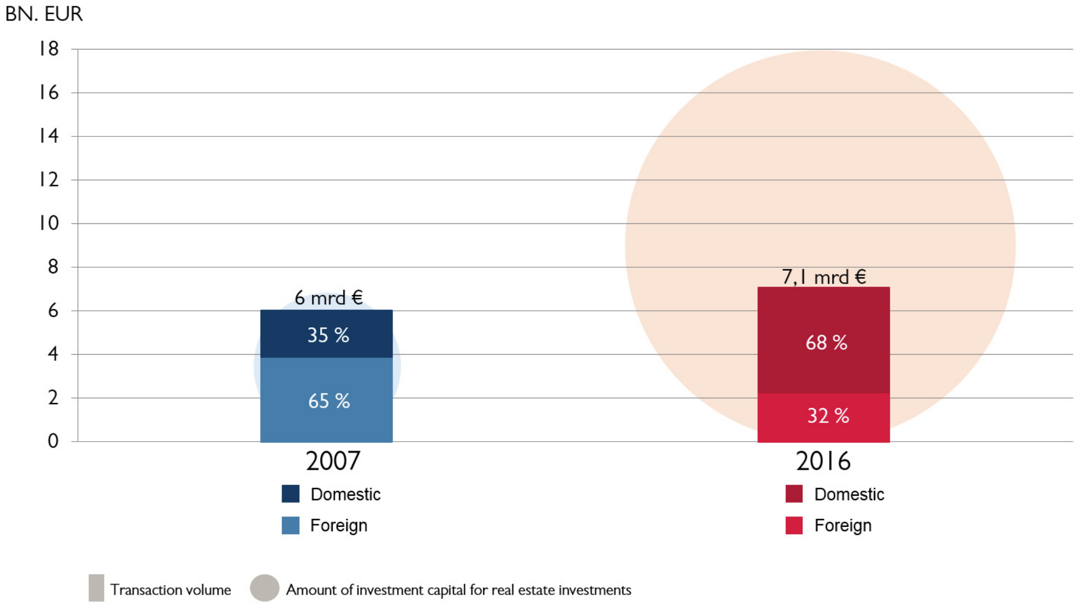

Figure 2 Transaction volume, the portion of foreign investors and the amount of capital searching for real estate investments in Finland in 2007 and 2016 (Catella 2017)

There is a substantial number of foreign investors in the Finnish property market, but what are the challenges they face? The challenges foreign investors face when investing cross-border are known and researched by the scientific community. Yet the subject of challenges faced in Finland has not been researched by many. Although many foreign investors have entered the Finnish real estate market, there are many that have exited the market or never even entered. It stands to reason that foreign investors must come across at least some challenges while investing in Finnish real estate. These challenges might be the reason for some investors exiting or not entering the Finnish market.

1.2 Research Questions and Limitations

This thesis aims to recognise and increase knowledge of the challenges that foreign investors face when investing in Finnish real estate. It will provide important information for all investors in the Finnish real estate market, foreign and domestic, along with those considering entering the market for the first time. Furthermore, this thesis aims to fill the gap in the current research of this topic.

This thesis will answer one research question:

What are the challenges that foreign investors face when investing in Finnish real estate?

The goal of this thesis is firstly, to identify the general challenges in cross-border investments and then identify the challenges that foreign investors face when investing in Finnish real estate. This is done by finding out, with the help of a survey, what are the challenges that foreign investors emphasise in Finland out of the general challenges identified in the literature review. In addition, the drivers behind cross-border investments will be discussed.

Most literature on this subject does not define words such as challenge, barriers, risks, obstacles, et cetera. These words are difficult as they can mean different thing to different people. Thus, in this thesis the word challenge has been used as a superordinate so that all of these factors can be covered in this thesis, as there is not so much research about this topic. The word challenge is defined, in this thesis, with the help of Khumpaisal's (2011) analysis of the definition of risk. Challenge is a possible negative impact that can arise from a present process or future event. The concept of challenge cannot only mean mathematical or statistical calculations because challenges can also be caused by human, social and political phenomena.

The author also noticed that the factors identified in the literature are not commensurable; some factors are larger concepts than others are, some affect only foreign investors and some effect also domestic investors. Some of the factors cannot be controlled by the investor and some can. In addition, some of the factors might not even be regarded as challenges by some authors as some regard them as equal challenge for all investors, domestic and foreign, or some think that the challenge is already priced in the markets. Thus, the challenges identified in this thesis cannot fully be compared with each other, but conclusions of the importance of each factor can still be drawn. These challenges have been considered more thoroughly in sub-chapter 6.2.

Challenges will be covered on a general level meaning that the challenges researched will not be from the perspective of a specific factor. Thus, factors such as the phase in which the real estate investment is (development, construction etc.), the investors type (core, value added, opportunistic etc.), the real estate type (office, retail, industrial residential etc.) or the life cycle stage (planning, construction, maintenance etc.) of the property will not be taken in to account.

This study will cover only direct real estate investments. Thus, in this thesis when cross-border investments are mentioned, they refer to cross-border direct real estate investments. Furthermore, this research excludes acquisitions that are not made for investment purposes.

1.3 Research Methodology

The thesis starts with a literature review which aims to find out current research concerning cross-border investments and its challenges, first in general and after that from the perspective of the Finnish real estate market. The literature review also answers the question why do investors invest in cross-border investments in the first place, because this is important framework needed to understand the challenges and the whole unity of the subject.

Chapter 3 covers the challenges in cross-border investments on a global level and is very theoretical in nature and is based mostly on academic articles and textbooks, as well as on some non-scientific articles and reports, online articles and other web sources. Chapter 4, which covers the challenges identified in Chapter 3 from the perspective of the Finnish real estate market, is less theoretical in nature. The chapter is based mostly on statistical databases and non-scientific reports, as there is not so much existing literature on the subject. The chapter is being supported with the academic journals that were found on the subject.

The empirical approach in this thesis is qualitative with quantitative features. The research method used in this thesis is a survey which was sent to 75 foreign investors active in the Finnish real estate market. 25 responses were received, which amounts to 33 per cent response rate. The empirical research methods are described in Chapter 5. A survey was used in this research since it enabled having the opinion of a larger number of foreign investors than the other research methods. It also serves the aim of the research better, as the goal is to find out what challenges the foreign investors emphasize in the Finnish market from the challenges revealed.

1.4 The Structure of the Thesis

This thesis comprises of five chapters that cover the subject and answers the previously presented research question. The structure of the thesis is presented below in Figure 3.

Figure 3 The structure of the thesis

The first chapter is the introduction of the research. It provides the background of the subject and presents the motivation, research questions, scope, methodology and the structure of this thesis.

Chapter 2 is the first chapter in the literature review. It presents the drivers in cross-border investments. This is important framework needed to understand the whole unity of the subject. Chapter 3 presents challenges foreign investors face when investing cross-border on a global level without taking a perspective of a specific country or region. Chapter 4 covers the factors identified in the previous chapter from the angle of the Finnish property investment market. The fourth chapter includes also a brief overview of the foreign investors in the Finnish market.

The fifth chapter is the empirical part of the research. It specifies the research methodology and the research methods used in the empirical part. The chapter presents the survey and its results.

Chapter 6 compares the results of the empirical part with the literature review and presents the conclusions of the research. Furthermore, the chapter discusses the nature of the research and further research.

2 Drivers in Cross-border Investments

Weighting challenges and benefits is part of the market selection process which is an important step in the decisions making process of cross-border investments (Lieser and Groh 2011, p.191-194). Thus, it is important to examine the drivers behind cross-border investments before examining the challenges. The goal of this chapter is to identify the drivers behind cross-border investments.

Traditionally real estate investments have mainly focused on a single geographical country. Due to globalisation, cross-border investments have increased in all asset markets. (Geltner et al. 2007.) The main drives in cross-border investments have been presented in Figure 4. Two main motivators have been widely acknowledged as important reasons for cross-border investments: diversification and return opportunities (Worzala 1994; Baum 1995; Newell & Worzala 1995; McAllister 1999; Falkenbach 2009a; Falkenbach 2009b; Falkenbach 2010; Baum & Murray 2011). In addition to these two main factors, there are many other motivating factors for cross-border investments. The market selection process depends greatly on the type and home country of the investor, for instance the countries that look the most attractive from the perspective of a Hong Kong or Singaporean investor might not be the same as for a French or English investor (Lee 2005, p.10).

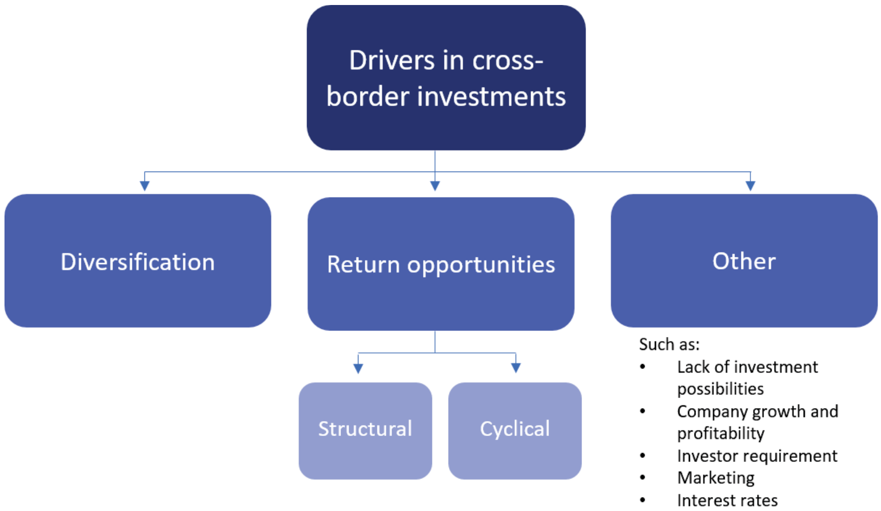

Figure 4 Drivers in cross-border investments

2.1 Diversification

Diversification is a risk management technique with the basic idea that if one part fails the other parts will provide protection. Diversification in real estate market occurs through differences in the economy and the real estate market. Diversification is used in real estate portfolios because it can enable an investor to reach for lower risk level with a given expected return, or the other way around, to reach for higher expected return with given level of risk. Asset pricing models are being used to determine the return investors should require for a given level of risk. Diversification benefits vary greatly depending on the country. (Geltner et al. 2007, 641-646.)

The effect of international diversification is usually measured by correlations. Correlations can be calculated, in the case of property markets, from the fundamentals that drive property returns, such as gross domestic product (GDP), interest rates and the consumer price index (CPI). Real estate portfolios can be diversified with cross-border investments because these fundamentals are not perfectly correlated in different countries (Eichholtz 1996, 56). A negative correlation between nations would indicate a strong diversification potential. Typically, correlations between continents are lower than within the same continent assuming that the fundamentals differ more between continents than within. Moreover, correlations are not stable as they change constantly even over a short horizon. (Geltner et al. 2007, 641-646.) This topic has been extensively studied for nearly five decades (Grubel 1968; Solnik 1974).

Investment risk can be split into two types: market risk and specific risk. Figure 5 demonstrates the difference of domestic and foreign market risk on a general level in long run. If the portfolio has cross-border investments, it provides more diversity and more potential to diversify. If the portfolio consists of domestic properties alone, the total risk can be lowered only to some extent. In other words, the global market risk is typically lower than the domestic is. (Geltner et al. 2007, 643-645.)

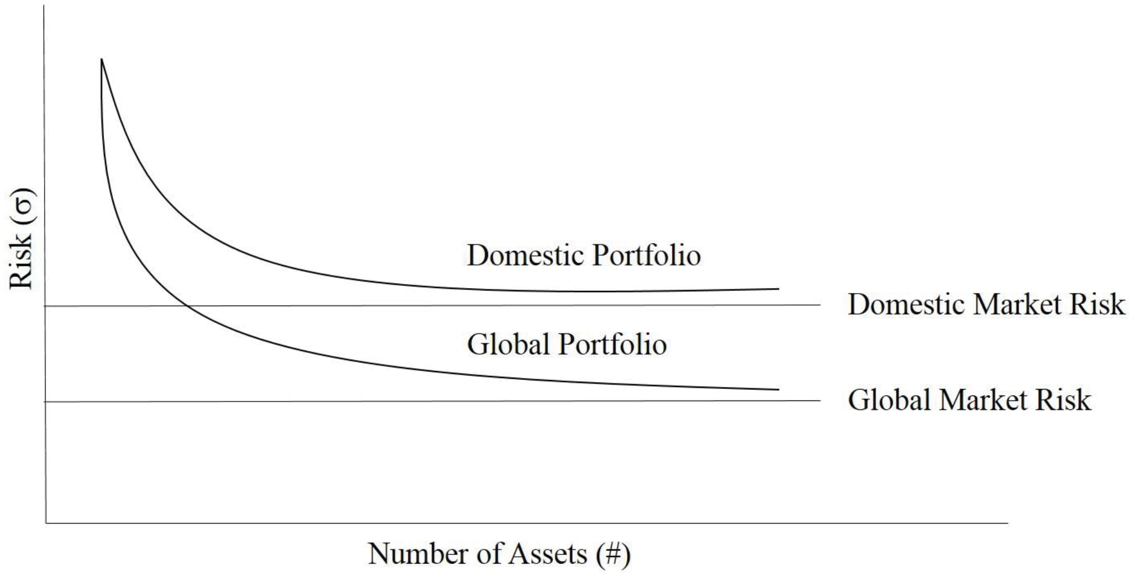

Figure 5 Domestic and foreign market risk (Geltner et al. 2007)

Many studies concerning international property investments have been based on the Markowitz's (1952) Modern Portfolio Theory (MPT). The main idea of MPT is that every asset in a portfolio co-moves with all the other assets in the portfolio. By acknowledging this, it is possible to gain same expected return for the portfolio with less risk. Even though many researchers mention the MPT in connection with measuring the diversification benefits of real estate in a portfolio, there has been some studies that conclude that the MPT is not the most suitable theory when discussing real estate. (Sirmans & Worzala 2003, 1126; Falkenbach 2010, 16.)

Geurts and Jaffe (1996, 117-118) speak about naive diversification in connection to MPT; if capital markets are fully integrated and efficient like in the case of bonds and stocks, the MPT strategy works, but this is not the case for real estate as Geltner (et al. 2007) established earlier. Falkenbach (2010, 16-17) is of the same opinion although her reasoning differs slightly. She presents that applying MPT to real estate assets is problematic due to the mathematical nature of the model and the assumptions of the distribution and predictability of returns along with the assumed portfolio selection criteria and investment horizon. The main characteristics of real estate, e.g. large lot size and limited liquidity, brake the assumptions of the model. Her opinion is also supported by the questionnaire she executed on market selection in 2009, where one fifth of the respondents chose "diversification possibilities through low correlation of return" as a factor that does not affect market selection (Falkenbach 2009b). On the other hand, her survey's findings in 2010 suggest that diversification is still the main motivator for international real estate investments. This means that foreign investors invest cross-border for diversification possibilities but not in the terms of the MPT (i.e. low correlation coefficients), but in the terms of diversifying risk across different markets, tenants, economies and opportunities. In fact, the use of any kind of correlation analysis was not popular among the participants. (Falkenbach 2010.)

There can be two kinds of real estate portfolios: mixed-asset portfolios (including non-real estate assets) and real-estate-only portfolios. Most of the research on the benefits of international real estate in mixed-asset portfolio conclude that international diversification strategy provides benefits (Baum 1995; Eichholtz 1996; Seiler et al. 1999; Cheng et al. 1999; Chua 1999; Sirmans & Worzala 2003; Hoesli et al. 2004; Stevenson 2009; Lekander 2015). Studies arguing these results are mostly from between 1980 to 1990 when access to real estate data was very difficult (Ross & Webb 1984; Ziobrowski & Curcio 1991).

There are several studies of international diversification strategy in mixed-asset portfolios. Chua (1999) researched the effect of international real estate in a mixed-asset portfolio by mean-variance portfolio optimization. The data series used was quarterly total returns from investing in real estate, bonds, cash, equities and gold in all of the G-5 countries (Brazil, China, India, Mexico and South Africa) from 1977 to 1997. He concludes that even after correcting the result with higher taxes, transaction costs and asset management fees, international real estate have a significant role in lowering risk. Hoesli (et al. 2004) have also examined the benefits of foreign real estate in a mixed-asset portfolio. In their study, they have researched these benefits in seven different countries in the period from 1987 to 2001. Their findings indicate that when international real estate investments are included in a mixed-asset portfolio the risk reduction is increased from 10 per cent to 20 per cent. Lekander (2015) researched this topic by using the same framework as Hoesli (et al. 2004) and came to the same conclusion as them. However, he also presents that an investor tends to benefit more from strategies that are dependent on local demand, also when investing internationally.

There have been also some surveys made about this topic. Worzala (1994) conducted a survey study about the opinions, attitudes and decisions of investors about cross-border property investments in mixed-asset portfolios. The questionnaire was answered by 43 British, Dutch and German investors. The result was that the most important motivation for investors to make cross-border investments where diversification due to different economic and political environments and diversification through returns that have low or negative correlations which is contrary to what was said earlier about the MPT as not being the most suitable theory when discussing real estate.

Most of the investors investing in cross-border real estate have a real-estate-only portfolio (Falkenbach 2009a). As in mixed-asset portfolio, majority of the research on the benefits of international real estate in real-estate-only portfolio conclude that, international diversification strategy provides benefits (Sweeney 1989; Eichholtz et al. 1995; D'Arcy and Lee 1998; Addae-Dapaah & Yong 1998; Case et al. 1999; Conover et al. 2002; Sirmans and Worzala 2003; De Wit 2010).

There are several studies of international diversification strategy in real-estate-only portfolios. According to Sirmans and Worzala (2003, 1091) Sweeney (1989) has conducted a research on this topic. She compares 11 countries rental growth rates from 1978 to 1988 and uses an optimisation model to derive efficient portfolios and asset allocations. The result was that the portfolio that had real estate from only one country (Sydney in this case) achieved maximum risk and return, whereas the portfolio that had properties from seven different countries achieved the minimum risk and return. Eichholtz (et al. 1995) have also researched this subject. In addition to reviewing the differences of diversification strategies based on geography they have added property type to the equation. The study is based on three data sets covering the USA and UK from 1983 to 1992. They conclude that benefits of diversification are generally greater in geographical strategy than in property type based strategy. D'Arcy and Lee (1998) have also studied the differences of diversification strategies based on country but also from the perspective of property type and city type. The time period examined is from 1990 to 1996. The analysis was executed by multiple regression model. They, as others before, conclude that the most effective diversification strategy is geographical. As can be noticed cross-border investments seem to be the most effective diversification strategy.

There has been also some surveys made about this topic. Falkenbach (2010) conducted a survey study about the motivations for international property investments. The primary motivator for cross-border investment for most investors was diversification (48 per cent). The investors were also asked to describe their motivations, which were divided in to categories of external and internal motivation factors. The most often mentioned motivational factor externally was diversification of risk (66 per cent) and internally diversification of activities (52 per cent).

Even tough cross-border investments seem to be the most effective diversification strategy there are two issues that need to be considered: differences in diversification benefits between countries and monetary integration. Lim (et al. 2008) have examined correlation of investment returns from 15 countries. Their analysis suggests that diversification benefits vary greatly depending on the market. There are combinations of countries that provide significant diversification benefits; however, there are combinations that do not provide significant benefits. Although, investors clearly benefit from cross-border diversification, the increasing market integration in Europe has reduced these benefits. Monetary integration in Europe started on some degree when the euro was adopted in 2002 in most European countries. The integration is said to continue for a long time. (McAllister & Lizieri 2006) The European Union has done more than any other region in the world to integrate its member countries' economies (Bekaert et al. 2013, 1), even though recent events, such as Britain's possible exit from the European Union, may affect the further integration of the Union.

Literature is nearly unanimous that diversification is the most important motivator for cross-border investments. There seems not to be any difference between the portfolio type, mixed-asset or real-estate-only, regarding diversification benefits as both portfolio types clearly benefit from diversification with cross-border investments. It seems that investors tend to diversify for spreading risk across different markets, tenants, economies and opportunities rather than in terms of the MPT. On the other hand, strong market integration in Europe reduces the benefits of diversification inside Europe.

2.2 Return Opportunities

Investors invest in cross-border investments also for return opportunities. Newell and Worzala (1995) conducted a survey about decision-making processes in cross-border investments. The second most important motivating factor for cross-border investments, after diversification benefits, was higher returns (31 per cent). McAllister (1999) arrives at the same conclusion as Newell and Worzala; the second most important motivating factor considered by the respondents was high returns. Falkenbach has arrived in the same conclusion in both of her surveys that the primary motivation for international property investment after diversification was excess returns. In the first survey (2009b) 80 per cent of the respondents regarded expected return opportunities as a threshold factor (e.g. factor that needs to be realized before even considering the market), it was also regarded as the top three most affecting market selection factors. In the second survey (2010) 28 per cent of the respondents regarded excess returns as the most important market selection criteria. Excess returns was also mentioned in the external motivation factors by 48 per cent of the respondents. (Falkenbach 2009b; Falkenbach 2010.) Baum and Murray (2011, 7) also present that the two most common motivators for cross-border investment are diversification and return opportunities. On the other hand, they explain that the chase for diversification benefits is more common for core and core-plus property funds and that chase for return opportunities is more common for value-added and opportunity funds.

Total return of an investments is composed of two parts; income return and capital growth. The income return is the net amount of cash flow the investor gets from the property during the investment period. Capital growth is the change in the capital market value of the asset during the investment period. Different investors have preferences regarding which part of the return components they consider most important. These differences impact the investment strategy, the portfolio composition and which individual properties the investors choose to invest in. (Geltner et al. 2007.)

Return opportunities can be either (Geltner et al. 2007):

a. structural (e.g. relating to economic development, amount of capital and demographics)
b. cyclical (e.g. market timing)

Firstly, structural return opportunities are affected by economic development, which is unevenly spread across the world. Economic development and property demand are related. In economically mature markets, economic growth is usually relatively low which reflects on property demand by slowing it down. Whereas in economically immature markets economic growth is usually faster which reflects on property demand by spurring it up. Investor can either accept the return opportunities in its domestic market or go find new return opportunities abroad. (Geltner et al. 2007, 635.)

Secondly, structural return opportunities are affected by the amount of capital. In situation where there is much capital chasing few real estate assets the prices start to rise and returns to go down. In this situation, the investor has to decide if to accept these lover returns or to find higher return opportunities from new markets abroad especially from immature markets. (Geltner et al. 2007, 636.)

Thirdly, structural opportunities are affected by demographics. Demographics vary widely across the globe. Demographically mature and immature market refers to the demographical structure of the country. If the countries demographic structure is shrinking, also the demand for real estate should shrink. This is reasonable, as after all, real estate is a matter of providing space that people need. Significant factors are for example total population, number of working population and population composition. The exact relation between demand for real estate and the demographic structure is unclear. Different property types are exposed to different aspects of demographic aspects. It is said, that changes in demographics effect first office markets and only later retail and housing markets. Return opportunities based on demographics depends on the home market of the investor; if the demographic of the home market is shrinking, it can give a clear rationale for investing cross-border. If the demographics of the home market is not shrinking, it should be something the investor is wary of. (Geltner et al. 2007, 635-640.)

Whereas structural return opportunities take long-run perspective, cyclical return opportunities are more short-run and opportunistic. Baum (1995, 82) defines cyclical return opportunities as taking advantage of the inefficiencies in the real estate markets in the target country. He states that foreign investor should look at two market factors in particular: perspective and liquidity. Firstly, foreign investors can search for inefficient real estate markets that can produce forecastable excess returns. Foreign investors have an advantage position, as domestic investors are usually slower on picking up these signals. These signals can be for example: rents seem low compared to other global rental markets, capitalisation rates seem high compared other foreign property markets, capitalisation rates seem high compared to other asset classes in same target country and capitalisation rates seem high compared to other asset classes in the foreign investors home market. (Baum 1995, 83.)

Secondly, liquidity changes over time in cycles. International investors can use these cycles and time their transaction more efficiently. For example, liquidity can affect the matter that large lot size properties can be attractive in distressed markets and unattractive in hot markets. When markets are distressed, liquidity premiums are high and the amount of potential buyers is small especially for large lot size properties. (Baum 1995, 83.) The subject of liquidity is discussed more thoroughly under Chapter 3 in the sub-chapter of liquidity.

Whereas Baum (1995, 82) defines cyclical return opportunities as taking advantage of the inefficiencies in the real estate markets in the target country, Geltner (et al. 2007, 640) describe cyclical return opportunities as taking advantage of market cycles, in other words, market timing, which in principal mean the same thing. There are many different cycles in property markets such as rent, utilisation rate and yield cycles. These cycles are usually connected to the cycles of economy. Typically, the cycles of property markets are sharper than the cycles of economy as Figure 6 presents. (Olkkonen et al. 1997, 44-55.) The challenge is to predict these cycles. For instance, if an investor feels that his domestic market is at its top of the cycle, he can sell all his properties and buy new ones in a market that is in its bottom of the cycle. Predicting is not easy especially in the case of foreign market. This gives cyclical return opportunities its opportunistic nature. (Geltner et al. 2007, 640.)

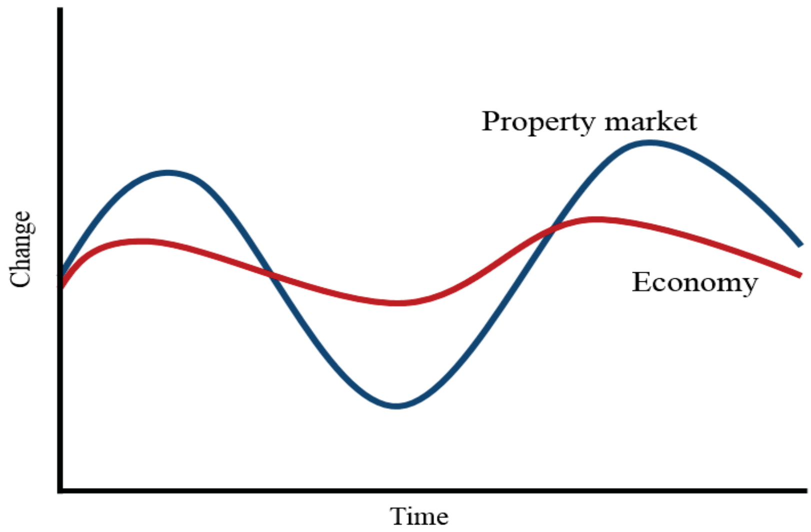

Figure 6 Property markets and economies cycles (Olkkonen et al. 1997, 43)

Literature is nearly unanimous that return opportunities is the second most important motivator for cross-border investments. Return opportunities can be of two natures, structural or cyclical. There seems to be many factors that affect return opportunities including economic development, amount of capital, demographics and market cycles.

2.3 Other Drivers

Literature has also identified many other motivating factors for cross-border investments. Falkenbach (2010, 19) has identified, amongst others, lack of investment possibilities in home country, company growth and profitability and investor requirement to be motivating factors. In a survey by Worzala (1994) also marketing reasons, interest rates, development gains, internationalisation and currency strength are mentioned as possible motivations. In addition, there are many non-financial drives such as overseas travel and meeting interesting people. Newell and Worzala (1995, 60) mention also political reasons.

3 Challenges

This chapter focuses on the challenges foreign investor faces when investing cross-border on a global level without taking a perspective of a specific country or region. It is important to bear in mind that the challenges faced in cross-border investment depend greatly on the type and home country of the investor.

There are many benefits in cross-border investments, but they often come at the cost of more complex execution. Challenges can be divided into two categories:

a. formal
b. informal

Formal challenges are known factors, which will affect the ability to invest abroad or the net return gained. Informal barriers are risks, which may affect the ability to invest abroad or the net return gained. In this thesis, both formal and informal challenges will be analysed. (Baum & Murray 2011, 7-10). Foreign investors are often in a disadvantage position compared to domestic investors concerning these challenges (Baum & Murray 2011, 22).

Literature has identified several main challenges that investor can face when investing cross-border, which have been presented in Figure 7: transaction costs, information disadvantages, political risks, economical risks, currency risk, liquidity, execution risks and other possible challenges (Worzala 1994; Newell & Worzala 1995; Geurts & Jaffe 1996; Lee 2005; Geltner et al. 2007; Baum & Murray 2011; Gholipour Fereidouni et al. 2013). The figure does not include all the challenges possible as the group "other challenges" could include dozens of challenges.

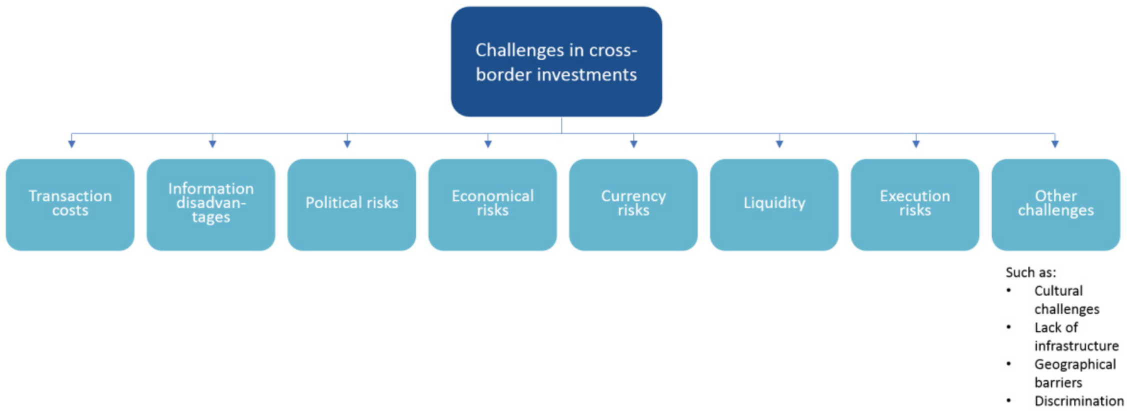

Figure 7 Challenges in cross-border investments

The characteristic of real estate makes these challenges harder to avoid and manage (Geltner et al. 2007, 647). The characteristics of real estate can be divided in to three categories:

a. physical
b. financial
c. real estate market and investment

Physical characteristics are immobility, heterogeneity and indestructibility. Financial characteristics are scarcity, long life duration, modifiability and strong linkage to location. Main characteristics of the real estate market and investment are large lot size, low liquidity, intervention of public sector, distribution into submarkets, lack of information, no central trading, difficulty of predicting changes in the market, impressions and anticipations, physic income, oligopoly in supply, high transaction costs and need for intensive management. (Olkkonen et al. 1997, 26-30.)

3.1 Transaction Costs

Foreign investors can face many kinds of costs associated with cross-border investments for example concerning transaction costs (Geltner et al. 2007, 647). There is quite much literature about transaction costs. Eichholtz (et al. 2001, 349-350) analyse that property investors acquire less cross-border properties because of high costs. These costs relating to direct real estate are particularly high when compared to public stock market.

High transaction costs can mitigate diversification benefits to the extent that it is no longer profitable (Eichholtz et al. 2001, 349-350). There are many definitions for transaction costs. All transaction, in every asset class, include costs which can be divided to either external market transaction costs or internal bureaucratic transaction costs. The most important external market transaction costs include the cost of determining the relevant price of a product or service, the cost of negotiating and concluding the sales contract and the cost of information failure. The most important internal bureaucratic transaction costs include administrative cost of determining what, when, and how to produce, the cost of resource misallocation and the cost of demotivation. Transaction costs can also be divided into ex ante (costs arising before the transaction) and ex post (costs arising after the transaction). It has to be taken into account that these cost factors are generally for all asset classes and that in the case of real estate the basic nature of the asset class affects these cost factors. (Canbäck 1998.)

Transaction costs arise for example from finding the right contracting party, time spent on negotiations and payments and taxes related to the transaction (Olkkonen et al. 1997). In this thesis, transaction costs will be divided into four types of costs. First one is registration costs which means the fees and taxes regarding registering the property into the countries land registry. Second one is real estate agent fees. Third one is legal fees which are paid to the lawyers or conveyancer. The fourth is sales and transfer taxes which can include deed taxes, transfer taxes and value-added tax. (Gholipour Fereidouni et al. 2013, 358.)

Property transaction taxes vary much between countries and can range from minor to substantial sums (Geltner et al. 2007, 647). According to Nozeman (2010) in more transparent (mature) real estate markets transaction costs are usually lower than in less transparent (emerging) markets. He also presents that transaction costs can vary significantly depending on: size of the transaction (impact of degressive fees), national or transnational character of the transaction (impact of relative information advantage of local investors and developers) and the nature of the transaction (real estate development, real estate investment in completed buildings).

In Worzalas (1994) survey study, investors were asked to rank seven different challenges in cross-border real estate investments. The results concerning transaction costs where quite scattered, 33 per cent of the respondents felt that transaction costs where an important problem whereas 28 per cent of the respondents felt that transaction costs where an unimportant problem. The author suggests that the lack of interest in transaction costs is due to investors' expertise in local property market issues. Gholipour Fereidouni (et al 2013) have conducted a regression model to examine the relationship between real estate market factors including transaction costs and the amount of foreign real estate investments.

They conclude that the amount of foreign real estate investments is smaller in countries with high transaction costs.

Transaction costs can be divided in to two groups; those that are obligatory and same for all investors and costs that are optional. For example transfer taxes are usually obligatory, but for example legal fees are not, as the investor doesn't always need to engage a legal advisor. Some researchers argue that these transaction costs that are obligatory to every investor are already priced in the markets and thus are not regarded as a challenge (Eichholtz et al. 2011).

It is hard to draw conclusions on whether transaction costs are a challenge based on the research on the topic. In most countries transaction costs are the same for foreign and domestic investors and thus no difference between investors should occur. On the other hand, when comparing countries, the sum of transaction costs can vary greatly. Then again, if transaction costs are priced in the market they should not affect the decision.

3.2 Informational Disadvantages

Especially foreign investors from far away are in major disadvantage position concerning information costs compared to domestic investors. Public stock market does not have this problem, as it is an efficient market in sense of information. This is because for the most part, all of the available information is already reflected in the asset price. Unlike public stock market, private real estate market is not efficient market in sense of information. In private real estate market, access to information is crucial in succeeding; it can prevent of doing a poor deal (e.g. paying too much). Foreign investors often have less vital market information than domestic investors which should be seen in performance. (Geltner et al. 2007, 647-649.)

Information costs are partly due to information asymmetries between local and foreign investors. Lack of information tend to result in a bad investment, which usually stands for lower risk-adjusted returns. (Eichholtz et al. 2001, 349-350.) According to Ihlanfeldt and Mayock (2010) study, which is based on a regression model, there are at least two explanations on why buyers pay different prices for nearly identical properties. Firstly, their results support the hypothesis that non-local buyers arouse higher search costs and know less about the nuances of the local market and thus pay more. Secondly, buyers from higher price markets can have magnified estimates of the price distribution and thus will tend to pay more for the property than buyers from low price markets.

Several have studied the effect of information asymmetries in market selection. Geltner (et al. 2007, 647-649) have recognised two kinds of information costs. First is that the foreign investors do not have the necessary information and thus can pay too much for the property. This is extra cost for the investor. The second one is that the foreign investors buys market information for example from a local broker; this too is extra cost for the investor. In Worzala's (1994, 40) survey study, lack of local expertise was ranked as the most important challenge concerning cross-border investments. Eichholtz (et al. 2011, 168) regard the availability of information as an important matter. They conclude that the larger the foreign investors organisation is, the less they face challenges with information disadvantages. This is due to scale effect as large companies can overcome informational disadvantages by growing. Contrary to other studies Baum (1995, 81) presents that foreign investors can have an information advantage compared to local investors. Foreign investors can hold a practical advantage with a unique perspective on the investment.

A prominent issue concerning information costs is transparency, which means the ability to receive precise and up-to-date information about investments in another country. High transparency promotes confidence and trust and thus lead to better decision making. Low transparency is often associated with corruption. Investors usually choose less corrupt, more transparent, economies to invest to (according to Wei 1996 in Lee 2005, 7). Jones Lang LaSalle (JLL 2016) provide a Global Real Estate Transparency Index (GRET), which goal is to help investors' measure transparency in different countries. The index uses 139 transparency measures, which are divided in to 13 topic areas. These areas are grouped into five sub-indices: performance measurement, market fundamentals, governance of listed vehicles, regulatory and legal and transaction process. (Lee 2005, 7-8.)

The more international markets are, the more transparent they usually are, as foreign investors demand for more accurate and detailed market information (Adair et al. 2006, 219). The same affect is said to be in markets where international property consultancy firms have entered. International property consultancies can enable international investors to enter other markets more easily. (De Magalhaes 2001.)

The level of transparency in the market is often regarded as an important factor in market selection. In the survey, focusing on Asian market conducted by Ho (et al. 2006) market transparency was regarded as very important criteria. Chin (et al. 2006) has also conducted a survey-based study where they discover, similarly as Ho (et al. 2006), that the level of transparency in the market is important criteria in market selection. In Falkenbach (2009b) survey, the respondents were given 12 factors from which they evaluated the influence of each factor. Availability of market information and performance benchmarks was regarded as a threshold factor by 56 per cent of the respondents. Gholipour Fereidouni and Marson (2013) have studied market selection criteria from two perspectives: emerging and developed countries. Transparency was regarded as important market selection criteria, in emerging countries but not in developed countries.

According to the literature, information disadvantages can be regarded as on important challenge in cross-border investments. At the same time markets are more and more international, which makes them continuously more transparent. Which can indicate that this challenge is slowly fading away.

3.3 Political Risks

This sub-chapter discusses political risk. The literature is quite unanimous that firms that operate internationally face greater risk than local firms because of increased political risk exposure (Eichholtz et al. 2010, 155). The term political risk is often referred in research, yet there is no consensus on the definition of the word or its sub-factors. As a superordinate the academic community have agreed that political risk means unwanted consequences of political activity. The literature gives dozens of definitions and sub-factors that differ by the extent of the term. The term is usually used on a very general, subjective and superficial level (Kobrin 1979, 67-68). This chapter will firstly discuss political risk as a superordinate and after that divide the factor into few sub-factors that have been mentioned in the literature concerning cross-border investments.

Geurts and Jaffe (1996) define political risk as the probability of economic losses because of government actions that could complicate, decrease or prevent foreign investment projects. Political risk also includes the possibility of unfair administration of laws, lack of law enforcement, corruption, nationalisation and expropriation threats and the possibility of political revolution. Similarly, ICRG (2016) rating defines political risk as a measurement of political stability. They divide political risk to 12 components, giving each component points from 12 to 5 depending on its importance. The components are government stability, socioeconomic conditions, investment profile, internal conflict, external conflict, corruption, military in politics, religious tensions, law and order, ethnic tensions, democratic accountability and bureaucracy quality.

As in information costs, foreign investors are in major disadvantage position concerning political risk compared to domestic investors. In a foreign country, the investor faces the same risks as the domestic investor and more, for example differences in culture, valuation methods and local working practices (Lee 2005, 5). Political risk is much higher for real estate than for any other asset class (except for few exceptions), as real estate and land are emotionally and politically sensitive. (Geltner et al. 2007, 650.) Political stability is an important factor as it affects investing behaviours (Gholipour Fereidouni et al. 2013, 364) and it is usually very unpredictable (Geurts and Jaffe 1996, 120). This is why political risk is an essential point to asses in the decision process (Lee 2005, 5). Eichholtz (et al. 2011, 170) conclude in their research that political risk is a challenge for foreign investors even though it is not a very significant coefficient.

Political risk on portfolio investment has not been researched by many. One reason for this is probably, that many think that political risk is important only when investing in less developed countries. This is true when political risk is being defined narrowly as in violence, armed insurrections, frequency of changes in the government et cetera. However, when defined widely the term includes also limitations on foreign ownership, tax regulations et cetera and these aspects are also important for the developed countries. (Lee 2005, 5.)

Even tough, literature presents that political risk is low in developed countries the news lately tells a different story. Two substantial political occurrences happened in 2016 which were both unexpected by the market, media, gallup polls and forecasts; in the summer of 2016 the British voted in favour of separation of the European Union (Brexit) and in November of 2016 Donald Trump won the presidential election in the United States. The effect on the financial market was quite short, but both of these occurrences have caused political uncertainty, which reflects on the economic uncertainty in the markets. This can effect negatively on the investments and consumption of investors, consumers and businesses. (Silvo 2016.) The uncertainty will continue to grow, as the actions of Donald Trump are still unknown (Räikkönen 2016) and many important elections will be organised in 2017 in Europe, which at worst can threaten the future of the whole European Union (Gerich 2016).

There are several studies about political risk when regarded as a superordinate. In the survey of Newell and Worzala (1995) 72 per cent of the respondents regarded political risk as an important challenge. Geurts and Jaffe (1996) notice that political risk is highly correlated with most of the variables in their model, especially with sociocultural aspects (including low life expectancy at birth and low level of quality of living). In the survey study that Baum and Murray (2011, 14-15) have performed, interviewees considered that political risk is a medium to low strength barrier. One of the interviewees highlighted that the barrier was not so much related to the political regime as to legal structure.

In the survey that Chin (et al. 2006) conducted, many political risk factors were recognised as important factors in market selection including political stability, legal regulation, legal framework and transparency of legislative system. In cross-border investments, confidence in the legal system of the target country is crucial (Baum & Murray 2011, 21). Foreign investors should face more challenges in countries with institutions that are weak in contract enforceability (Mantecon 2008, 10).

The basic nature of real estate (e.g. low liquidity) make strong property rights very important for real estate investors (Lee 2005, 8). Gholipour Fereidouni (et al. 2013) have conducted a regression model to examine the relationship between real estate market factors and foreign real estate investments. The results reveal that foreign investors prefer markets with strong property rights. Strong property rights stand for clear laws that are enforced by the state and protect private property rights. If property rights improve, the premium risk of the investor lowers, thus the amount of foreign investments is larger. In the questionnaire, that Falkenbach (2009) conducted safety of title and property rights were considered as one of the most important market selection criteria in cross-border investments. It was also identified as a threshold factor by 90 per cent of the respondents.

The degree of tenant protection can be measured for example from rents (e.g. can rents be adjusted freely between tenant and landlord), deposits (e.g. is it allowed to collect a security or rental deposits) and duration of contracts and evictions (e.g. can either tenant or landlord terminate before the end of the contract). Tenant protection can also be measured from the effectiveness of the legal system (e.g. how long does an eviction of a tenant take) and legislation (e.g. what are the laws that cover these issues). (Gholipour Fereidouni et al. 2013.) Countries have substantial differences in their lease law and tenant right practices. Many countries have pro-tenant rights, which means that they favour tenants' rights compared to landlord's rights. On the other hand, this is usually limited to residential properties, yet constantly extending to commercial properties also. (Lee 2005, 9.) This is problematic, as foreign real estate investors prefer markets with pro-landlord practises for their protection (Gholipour Fereidouni et al. 2013). In the study of Gholipour Fereidouni and Marson (2013) property owner and tenant practises where significant factors for emerging markets but not for developed countries. This can be due to very low variations in developed countries. This indicates that lease law is quite reliable in developed countries and less reliable in undeveloped countries.

Government interventions and restrictions are regarded as important challenges in cross-border investments (Chin et al. 2006). Government restrictions can cause ownership problems (Geltner et al. 2007, 650). For example, in Brazil foreign investors are not allowed to possess properties in the coastal area or in Switzerland near military bases. On the other hand, international investment firms that have their own office in the target country are often considered as locals and thus, do not face the same restrictions. (Baum & Murray 2011, 12.) There can also be restrictions of profits from direct real estate (Geltner et al. 2007, 650).

Baum and Murray (2011) recognize a few specific challenges concerning political risk:

a. capital controls
b. corruption

Capital controls can affect the investors' possibility to exit the market. An example of these controls is a regulation of minimum period of investment or restrictions on the removal of capital from bank. Capital controls are more common in developing economies. In their survey, they found out that capital controls really are a very high barrier for most investors. The second challenge they analyse was corruption. They present that general opinion of the literature on the effect of corruption is divided. Some argue that corruption does not affect foreign real estate investment levels and some argue that it does. In their survey, they discovered that most of the interviewees accept certain degree of corruption in order for the transaction to be completed. Most of the interviewees were also in the opinion that certain level of corruption was unavoidable in emerging economies. In the study of Chin (et al. 2006) the results of the survey indicated that corruption was perceived as less important factor among possible market selection factors. However, in the study of Lieser and Groh (2011) bribing and corruption was identified as one of the most significant factors out of 31 factors.

All of these national level political risks are fading away slowly as the world's real estate market opens slowly and tax treaties are being made between countries (Geltner et al. 2007, 650). Political risk has gradually reduced and the liberalisation of capital markets has increased the creation of financial instruments acceptable to foreign investors (Eichholtz et al. 2011).

In addition to political risks on national level, there can be risk on local level too. Local government is very involved in matters concerning real estate such as zoning and tenant protection. Foreign investors are at a disadvantage position in comparison to local investors also because the political influence of foreign investors is usually weaker. For example, they are not representing any voters or they are not big labour employers in the country. Furthermore, the information problem is connected to the local political risks. Foreign investors are not usually aware of the political changes in the country. For example, there can be discussion of changes in important rules and regulations that foreign investors are not aware of, yet domestic investors are. (Geltner et al. 2007, 650.)

According to the literature, there are many definitions to political risk, which makes the subject difficult to study. Nevertheless, it is clearly an important challenge especially in this unstable political situation. Political risk is strongly connected to economic situation; the better the economic situation the steadier the political situation (Lee 2005, 5).

3.4 Economical Risks

According to Geltner (et al. 2007, 650) foreign markets can be more volatile than the investor's domestic market and thus cause greater risk. This risk is often taken for the promise of higher returns. Economical risk is partly diversified by foreign investment even though the risk emerges from the foreign market.

Geurts and Jaffe (1996, 121) present that economic risk is closely linked with the macro economy of the targeted country. It includes at least three factors: economic growth, inflation and debt level. Debt level is the credit risk of the target country, which can be measured as the level of outstanding international debt in relation to GDP. In countries with high debt level, the probability of neglecting debt payments is larger. Moreover, high debt level can lead to negative growth of real GDP per capita as it did for example in a few countries in Latin America between the years 1980 and 1993.

ICRG (2016) rating has divided economical risk into two categories: economic risk and financial risk. Economic risk concentrates on the country's current economic strengths and weaknesses whereas financial risk concentrates on the country's ability to pay. The economic risk is measured by five components: GDP per head, real GDP growth, annual inflation rate, budget balance as a percentage of GDP and current account as a percentage of GDP. The financial risk also contains five components: foreign debt as a percentage of GDP, foreign debt service as a percentage of exports of goods and services, current account as a percentage of exports of goods and services, net international liquidity as months of import cover and exchange rate stability.

Chin (et al. 2006) have studied market selection criteria in Asian markets. Their survey results indicate that the most important factors where sound economic structure and strength and stability of the economy. Other important factors regarding economical risk was liberalisation of financial markets. Ho (et al. 2006) conducted a similar survey focusing on the Asian market. Their results are similar to those of Chin (et al. 2006) as economic growth prospects was noted as the most important factor in market selection. Similarly, in Falkenbach's (2009b) questionnaire, expected economic growth was regarded as one of the most affecting market selection factors. In addition, it was regarded as a threshold factor by 65 per cent of the respondents-

In the survey Baum and Murray (2011, 16) conducted economic stability was regarded as an important factor, still some interviewees were in the opinion that they are not so focused on the economic stability of the country as they can't control it and hence focus more on the analysis of the individual property.

3.5 Currency Risks

Cross-border investments usually indicate exposure to foreign currencies. (Kalemli-Ozcan et al. 2010) This can lead to currency risk, which can alter the risk and return circumstances (Schmittmann 2010, 1). This risk is due to currency fluctuations (Baum & Murray 2011, 16) and can be very substantial especially when the volatility of exchange rates is big (Geltner et al. 2007, 650). In fact, this is the reason currency risk should be included in the process of considering an international real estate investment strategy as it is an important factor (Sirmans & Worzala 2003). On the other hand, currency fluctuations are not just bad for international investors as they can present opportunities, especially for foreign investors because local investors can respond slowly to such cases and thus foreign investors can take advantage of the situation (Baum 1995).

The subject of currency risk has been researched by many. However, the issue of currency risk is often ignored in international real estate portfolio strategy studies; the research is usually carried out in local currency or no analysis of the currency risk is presented, also in some studies, returns are unhedged or fully hedged with no costs (Sirmans & Worzala 2003). Moreover, many of the studies have taken the position of a U.S. Dollar based investors and cover quite short time periods. (Schmittmann 2010.)

Hedging means protecting the investment from foreign exchange risk. There are many hedging strategies available. Hedging transfers the risk from the investor to a bank or to some other service provider. Naturally this service costs for the investors but lowers the risk of exchange risk. (Campbell et al. 2007.) The most common hedging techniques include currency swaps, forward and futures contracts, options and parallel loans (Worzala et al. 1997, 136). Currency hedging is argued to be expensive and difficult to accomplish efficiently (according to Lizieri et al. 1998 in Baum & Murray 2011). This is partly because many of the hedging instruments are designed for short horizon assets such as stocks, bonds and cash and are not as suitable for long horizon assets such as direct real estate. As direct real estate has a rather long holding period, the final sale price is unknown and thus makes hedging the capital appreciation difficult. (Sirmans & Worzala 2003.) Therefore, investment vehicles are rarely fully hedged which means that investors are left with the uncertainty of currency fluctuations (Baum & Murray 2011). In the case of international portfolio, it can be more efficient to manage the currency risk on the portfolio level and not on single asset level (Sirmans & Worzala 2003). Many researchers emphasise that the investor's home currency has a significant role and that results cannot be generalized when speaking about hedging policies (Schmittmann 2010).

In Worzalas (1994) survey study, currency risk was not regarded as an important challenge. Approximately 36 per cent of the respondents answered that currency risk was indifferent, yet 36 per cent answered that currency risk is an important problem. The investors were also asked if they had a formal policy for controlling currency risk. Most of the investors did not complete this section of the survey, which implicates that most investors lack interest or knowledge of this topic. From the answers gathered, the most common response was that the finance department deals with currency risk. Many mentioned the European Monetary System's stabilizing effect and hedging expenses. However, in the survey of Newell and Worzala (1995) currency fluctuations was classified as an important or very important factor by 89 per cent of the respondents; also hedging was considered as a basic and common financial risk management strategy.

Ziobrowski et al. (1997) conclude that it is common knowledge that currency swaps are an effective long-term hedging tool. Their study goal is to find out the effectiveness of currency swaps as a hedging tool in the case of foreign real estate investments. Their study is made in the perspective of U.S. real estate investments by foreign investors. They used fourteen efficient frontiers; in half of them, all returns where measured in British pounds-sterling and in half all returns where measured in Japanese yen. The data used in the study is five-year holding period returns from 1973 to 1991. They found out that currency swaps improve the return levels of U.S. real estate in several ways but no proof was found that foreign investors attain any diversification gains (this is specifically for U.S. real estate). British and Japanese attained significant benefits from including hedged U.S. assets, but not real estate. This is due to smoothing of returns; when the U.S. real estate data was adjusted for smoothing, no benefits where found. The researchers emphasize that these results are specifically for U.S. real estate.

Chin (et al. 2006) studied market selection criteria focusing on Asian markets. Their survey indicates that currency exchange stability and convertibility was regarded as an important market selection factor. Schmittmann (2010) has studied currency risk from the perspective of German, Japanese, British and American investors. The data set used in the study is from 1975 to 2009. When investing cross-border, the issue of retaining the implicit of currency exposure or to hedge the implicit has to be decided. The study shows that exchange rate risk has a substantial contribution to the overall risk of international investments. The survey study that Baum and Murray (2011, p.17) conducted indicated that most investors regard currency risk as an important risk. They also brought up that many of the investors highlighted the importance of whether hedging the currency is even possible.

Eichholtz (et al. 2011, 156) have studied the performance of real estate investors that invest cross-border during 1996 to 2007. Their findings illustrate that currency risk is not a relevant challenge for foreign investors. This is due to currency movements that will enhance or diminish both investors, domestic or foreign, returns.

Currency fluctuation can be bad for investors when the fluctuations manage to surprise, but they can also present opportunities. The literature concerning currency risk is not unanimous on its importance for investors in cross-border investments. The literature is unanimous on the fact that it should be an important risk but according to some surveys, investors did not always regard it as an important challenge. The reason for this can be, that there are many hedging techniques available. The subject of currency risk is widely researched, still in many international real estate portfolio strategy studies it has been ignored.

3.6 Liquidity

There are many studies relating to the liquidity of property company shares and real estate investment trusts, yet liquidity of direct real estate investments is not as widely researched. Concepts and measurement of liquidity in direct real estate markets is difficult because of the decentralised and private nature of these markets. In the survey-based study of Ho (et al. 2006) liquidity was regarded as important market selection criteria. Similarly, in Falkenbach's (2009b) survey liquidity was regarded as a threshold factor by 70 per cent of the respondents.

Liquidity has many definitions which differs by the dimension of the risk. Research should consider these all. Five main characteristics of market liquidity have been identified: tightness (cost of trading), depth (the capacity to sell or buy without causing price movements), resilience (the speed at which the marginal price impact increases when trading quantities increase), breadth (the overall size of the volume traded) and immediacy (the cost that is applied when selling or buying quickly). (Ametefe et al. 2015, 1.)

Liquidity can be divided in to two types: trading liquidity and funding liquidity which has is presented in Figure 8. Funding liquidity is related to the ability of the investor to gain funding for the trade of the asset. Assets are completely liquid if markets were efficient. However, there are many market imperfections such as imperfect competition, participation costs and transaction costs, which lead investors to demand compensation. Transaction costs especially are an important factor that weakens the liquidity of real estate, as transaction costs are typically high for real estate investments (Olkkonen et al. 1997, 16). This compensation, also known as ex-ante liquidity premium, is three per cent on average and has varied over time between 1.5 per cent to 10.0 per cent. (Marcato et al. 2015.)

The second type, trading liquidity, is related to the nature of the asset class and its trading markets. It can be divided into five dimensions: the cost of trading, the capacity to sell or buy without causing price movements, the speed at which the marginal price impact increases as trading quantities increase, the overall size of the volume traded and the cost to be applied when selling or buying quickly. (Marcato et al. 2015, 1.) Real estate is generally illiquid which makes it slow and difficult to trade at market value (Baum & Struempell 2006). In the UK, the median of the duration of property transaction process is 135 days from marketing to completion (Marcato et al. 2015, 5). Generally, cross-border transaction processes take longer than comparable domestic transaction (Fishman & Hernandez 2006, 1).

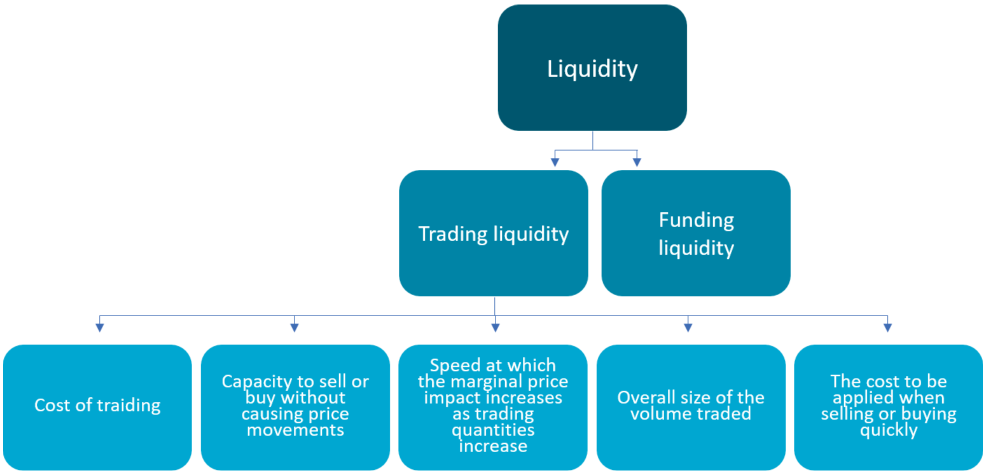

Figure 8 Different types of liquidity

Baum and Murray (2011, 17) describe liquidity risk as a mix of many aspects: duration of transaction process, transaction costs, transaction risk and uncertainty and the achieved transaction price. In their survey, they got diverse replies about liquidity issues. Still most investors regarded liquidity risk as high barrier.

Measuring liquidity in direct real estate markets is difficult because liquidity itself is not directly observable and thus indicators have to be created. Five main indicator categories base on transaction costs, volume, price impact, time and return. Measures that can be used in the case of real estate are for example relative quoted spread, transaction volume, turnover ratio, percentage of zero returns, market efficiency coefficient, holding periods, volumes volatility, time on market and run-length. (Ametefe et al. 2015.) For an extensive review of liquidity measures see Ametefe (et al. 2015).

While, there is much research about liquidity of real estate, yet not so much on the challenges it creates in cross-border investments. The literature concerning currency risk in cross-border investments is not unanimous, but liquidity issues are mostly regarded as an important factor in market selection process.

3.7 Execution Risks

This sub-chapter discusses execution risks. Execution risks are mentioned in several studies but has not been defined properly in any of them. This makes it difficult to cover this subject thoroughly.

When an investor acquires a real estate, the property can be in any stage of its life cycle. Figure 9 illustrates the different risk levels and the amount of cumulative investment in various stages of the buildings life cycle. In the beginning when the construction of the building has not started yet, the investment made is low and the risk level is very high. After the property has been built the operation phase starts (“Time T_2” in Figure 9). Then the risk level is low and the cumulative investment high. The stage in which the property is in its life cycle is not taken in to account in this thesis.

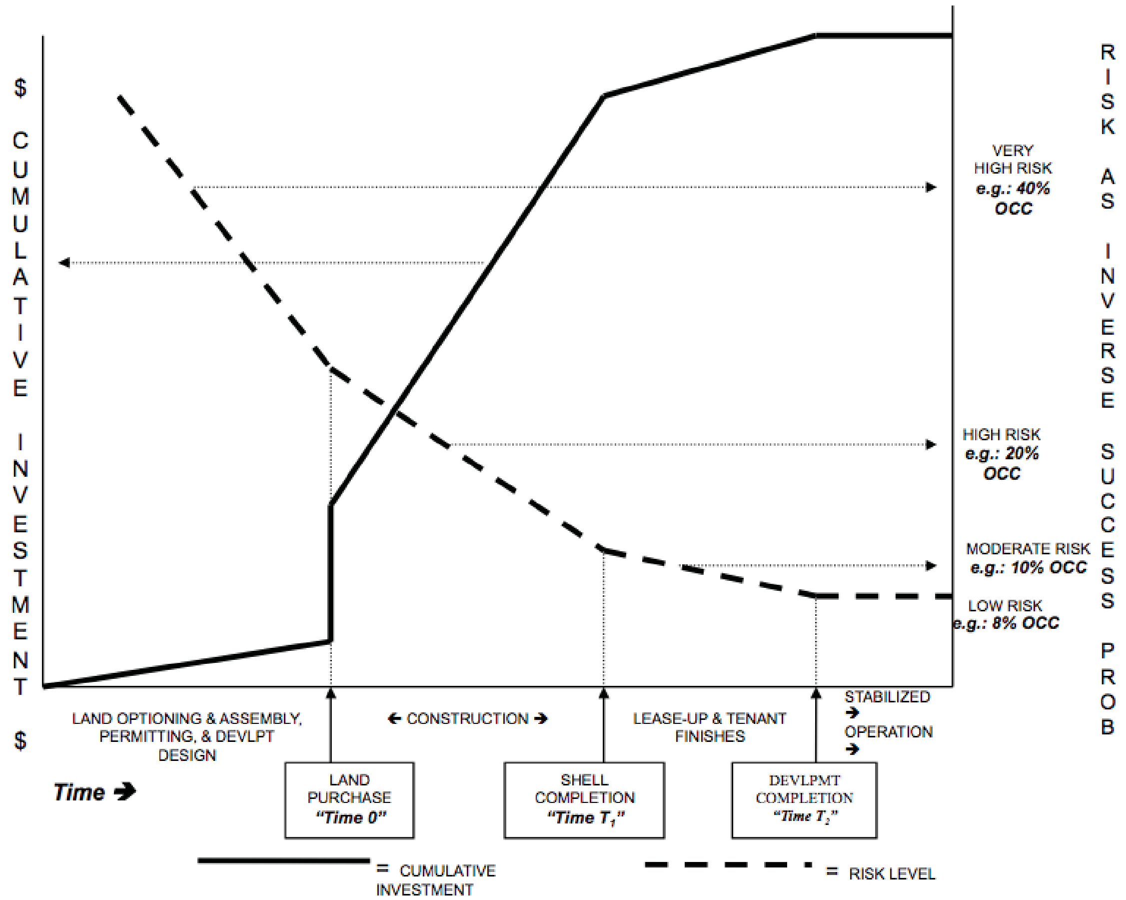

Figure 9 Cumulative investment and risk levels in different life cycles (Geltner et al. 2007)

The real estate investment cycle has three phases:

a. Origination
b. Operation
c. Termination

Origination is the acquisition of the property, operation is the management of the property and lastly is the termination, which is the sale of the property (exit). (Roulac 1974, 114.)

Origination

Cross-border acquisitions often face more challenges than domestic acquisitions. These challenges are partly due to institutions and cultural values that are unfamiliar to the foreign investor. For example, different accounting practices and disclosure requirements which complicate the due diligence process or different legal systems with different protection of property rights which adds uncertainty to future cash flows. The investor can reduce investment uncertainty by structuring the payments so that they are dependent of the performance of the assets. In addition, joint ventures are said to be an effective way to reduce the challenges in cross-border acquisitions. This is mostly due to the information exchange that occurs in joint ventures. Still whole ownership acquisitions are much more popular than joint venture acquisitions when comparing the number of acquisitions. This raises questions of costs associated with creation of joint ventures. (Mantecon 2008, 1-6.)

Before acquiring the property, investors often implement due diligence process. An effective due diligence process can at best mitigate loss exposure and improve the prospects of the investment performance. (Roulac 2000.) The acquisition process has become more difficult as due diligence processes are much more detailed nowadays than ten years ago. Execution risks are often found in inadequate due diligence procedures. (Wiegelmann 2012.)

Operation

Different asset classes require different amounts of management. A bank deposits does not require management at all, whereas, real estate investments require much management for succeeding. (Olkkonen et al. 1997, 16.) Kaiser and Clayton (2008) call this risk class as gamma risks. These risks relate to the investors own active role in producing value from real estate investments. Gamma risk are so important because they are the risks that most affect the potential outcomes from attempts to improve the values of individual assets in the portfolio. With good choices in maintenance and management, the investor can create added value to the investment, yet also adds risk. For example, in changing leasing strategy can be a considerable vacancy risk.

Every property needs real estate management at least on some extent. Real estate management is a superordinate, which includes operations such as property portfolio management, property management, asset management and facility management. Asset management focuses on managing the structural execution of buying, selling or developing properties. It represents the investor's perspective in real estate management and thus is the most important part of real estate management for the investor. Asset management focuses on securing the property's profitability. The goal of property management is to control the administration of the property and its maintenance. Facility management focuses on facility development, facility services and user services. (RAKLI 2012; Tuomela et al. 2001.) If the owner does not manage the property by themselves they must pay for a management company to act on their behalf in duties such as rent collection, portfolio management and non-annual negotiations and rent review (Khumpaisal 2011, 4). Managers should asses carefully the investment environment before entering a new real estate market (Eichholtz et al. 2011, 172).

Real estate investor can take care of the real estate management by itself or by out-tasking, outsourcing or partnering with a real estate service provider. For foreign investor, real estate management can be difficult because they often lack the full understanding of the foreign market and its practises (Kaiser & Clayton 2008, 301). Most of the outsourced management services are operative in nature, such as cleaning, building maintenance, security and restaurant services. Many investors decide to outsource for several reasons such as focusing on own core business, dividing risk with the service provider, releasing capital, transferring difficultly controlled procedures to an external service provider and better availability of resources. (Heininmäki et al. 2003.)

Newell and Worzala (1995, 60) conducted a survey about decision-making processes in cross-border investments. Management issues in general were found to be an important challenge in cross-border investments by 78 per cent of the respondents. In Falkenbach's (2009b) study she distinguishes threshold factors in market selection from the perspective of international real estate investors. Approximately 67 per cent of the investors regarded availability of professional services in real estate sector as a threshold factor. Real estate services include all kind of management services from acquisition to exit.

Termination

The timing of the property sale is dependent on the exit strategy. Wrong timing can cause risks related to exit. In addition, if the selected exit strategy does not reflect market conditions correctly the return levels will not be maximised. It is important that information is flowing to the prospective purchasers and that the seller has sufficient contacts to investors. Execution risks are often found in mismanagement of the exit process. (Wiegelmann 2012, 57.) Exit risk comprises of two types of risk, the real estate transaction process and valuation accuracy. Exit risk is also linked to liquidity, when liquidity grows the anticipated exit risk decreases (Falkenbach & Toivonen 2010, 15). According to Wiegelmann (2012) exit risk has increased notably in Europe after the financial crisis. The sale process has become more difficult: due diligence is much more detailed, more sophisticated risk management, more emphasis on formal documentation and increasing concern on legal liabilities.

Based on studies and research on this topic, execution risks are clearly an important challenge in cross-border investment. Even tough, the more detailed content of the risk is unclear due to lack of studies and definitions of the factor.

3.8 Other

There are also many other challenges mentioned in the literature, including cultural challenges, lack of infrastructure, geographical barriers and discrimination. Cultural challenges are often faced in foreign real estate investment processes. These kinds of challenges can be for example different institutions and cultural values that are unfamiliar to a foreign investor (Mantecon 2008, 2). Other cultural challenges can be dealing with highly religious countries, issues with language and pace at which business is conducted. Even though many investors recognised cultural barriers the general view of the interviewees was that, these barriers could be avoided for example by using specialised lawyers. (Baum & Murray 2011, 18-19.) In the survey of Newell and Worzala (1995) 55 per cent of the respondents regarded cultural challenges important.

Many studies concerning market selection criteria identified infrastructure as important criteria. The lack of infrastructure can be a challenge in cross-border investments. In the survey Chin (et al. 2006) conducted public infrastructure level was regarded as important factor in market selection. Similarly, in the market selection study of Lieser and Groh (2011) 66 countries were compared by using 31 factors. According to their regression model, infrastructure was one of the most important factors. Gholipour Fereidouni and Marson (2013) have studied market selection criteria in both developed and emerging markets. Their result was that all variables were insignificant for developed countries except infrastructure. They study showed that infrastructure is also an important variable in developing markets. Similarly, Gholipour Fereidouni (et al. 2013) conclude that foreign real estate investors prefer markets with established infrastructure.

Another mentioned challenge is geographical barriers, for example the ability to visit the target country. Time differences and requirement of visa are factors that influence notably on this. The interviewees considered this as a significant barrier. One of the interviewees justified his answer by explaining that even though operations are run from another country the investor still needs to visit the target country, because the asset is local even tough real estate market is global. Another interviewee concluded that investors do not buy "on trust" anymore and thus want to see the asset on the spot. (Baum & Murray 2011, 20.) On the other hand, in the interviews Falkenbach (2009b) conducted geographical nearness of markets to other targeted markets was considered as unimportant market selection criteria. Eichholtz (et al. 2011, 170) conclude that international investors that invest across continents perform better than investors that invest only inside their continent.

Eichholtz (et al. 2011) also mention Discrimination factors. These can be for example different taxation for domestic and foreign investors or planning and building codes that are not applied on the same level on both.

In addition, research identifies many other market selection criteria which can be considered as barriers. These can be for example market vacancy (Ho et al. 2006), market size (Falkenbach 2009b), technological development and innovation (Lieser and Groh 2011), differences in culture and urban form (Chin et al. 2006), existence of indirect investment possibilities and existence of other foreign investors in the market (Falkenbach 2009b).

4 The Finnish Perspective

This chapter discusses the main characteristics of the Finnish property investment market. Firstly, the chapter will focus on the foreign investors in the Finnish market and secondly on the challenges faced in the Finnish market based on the factors recognized in the earlier chapters. The goal of this chapter is to recognize the challenges that foreign investors meet in the Finnish property investment market.

4.1 Foreign Investors in the Finnish Market

As was established in the background of this study, foreign investors entered the Finnish property market only in the early 2000s. The number of foreign investors started to rise strongly and a peak was reached in 2007, when the share of foreign investors was 65per cent of the transaction volume in Finland, which amounts to EUR 3.9 billion out of EUR 6 billion (Figure 1 in Chapter 1). The years from 2009 to 20012 where quite quiet in the Finnish property market. The yearly transaction volume stayed on the level of EUR 1.6 billion to EUR 2.0 billion. (Catella 2016a; Catella 2016b; Catella 2015.)

After 2012, the property market got livelier again, the transaction volume started growing and with it the portion of foreign investors started growing again. In 2015, the transaction volume in Finland amounted already to EUR 5.2 billion and the portion of foreign investors amounted to 46 per cent. In 2016, the transaction volume amounted to EUR 7.1 billion which is the new record, yet the proportion of foreign investor amounted to only 32 per cent. However, foreign investors have been equally active in 2016 compared to 2015 when calculated in euros. The amount of investments and divestments of foreign investors in the Finnish property market is illustrated in Figure 10. Investments of foreign investors are presented in the dark blue pillars and the divestments in the dark red pillars. The light blue curve represents the net investments of foreign investors in Finland. As can be seen the net investments have been growing strongly after 2013, which means that foreign investors have bought more than sold thus the owning's of foreign investors in the Finnish property market have grown substantially.

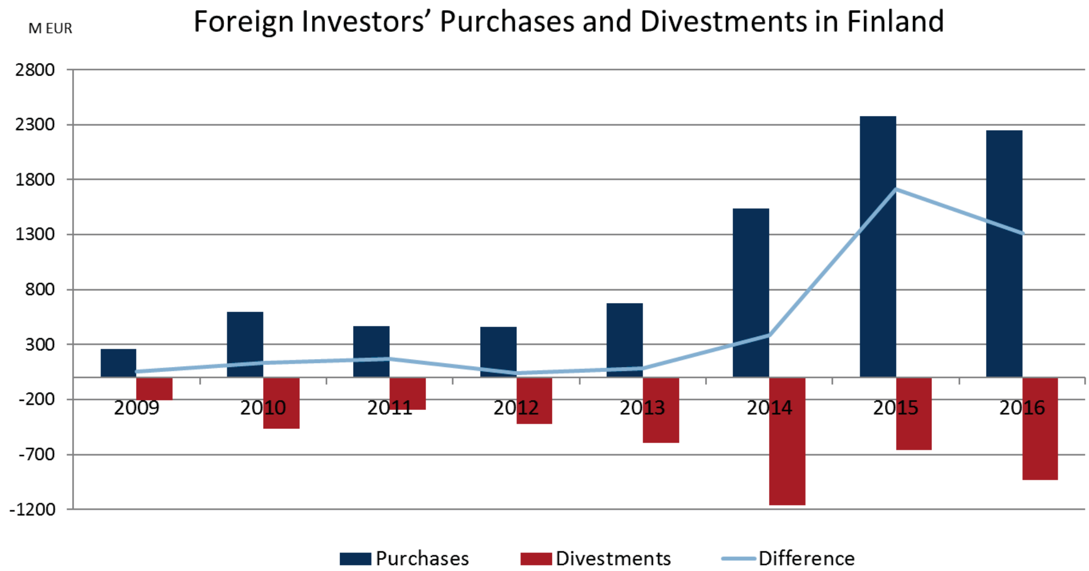

Figure 10 Investments and divestments of foreign investors in the Finnish property market (Catella 2017)

The reason that the proportion of foreign investors has dropped, is the sudden activeness in the residential investment market, which is still mostly dominated by the domestic investors. In 2016, large residential transactions have been executed by domestic investors, which rises the transaction volume substantially but lowers the proportion of foreign investors. (Catella 2017b; Catella 2016b.)

Holdings of foreign investors in Finland amount to some 12 billion euro, which corresponds to 22 per cent of the total Finnish real estate market. The largest foreign investors in Finland (measured by market value of their property portfolio) are Logicor, RBS Nordisk Renting, Wereldhave and Sagax. (KTI 2016a, 35.) In RAKLI-KTI Property Barometer, which was executed in October 2016 the investors in the Finnish market believed that the demand of foreign investors will continue to grow (KTI 2016c, 5).

New foreign investors enter the Finnish market every year, yet at the same time some foreign investors exit the market. Figure 11 present the distribution of transaction volume according to the origin of the buyer. It excludes domestic volume. The most active investors in the Finnish market have been German and Swedish investors, which are the two most bottom colours dark blue and dark grey. Notable in the figure is that the proportion of other nationalities has been rising after 2013. For example, in 2016 several new foreign investors entered the market including English M7 real estate and Swedish Alma Property Partners. (KTI 2016c, 13.) Already established foreign investors in the Finnish property market include:

a. Swedish investors such as Niam, Sagax, Sveafastigheter, Hemsö, Redito and Balder
b. German investors such as Commerz Real, Catella Real Estate, Patrizia, Union Investment and Deka Immobilien
c. Other foreign investors such as French AXA, English Aberdeen and Cordea Savills, Swiss Partners Group and American WP Carrey

In the data received from Catella Property, the nationality of the investors is decided according to the source of the money they invested. (Catella 2017.)

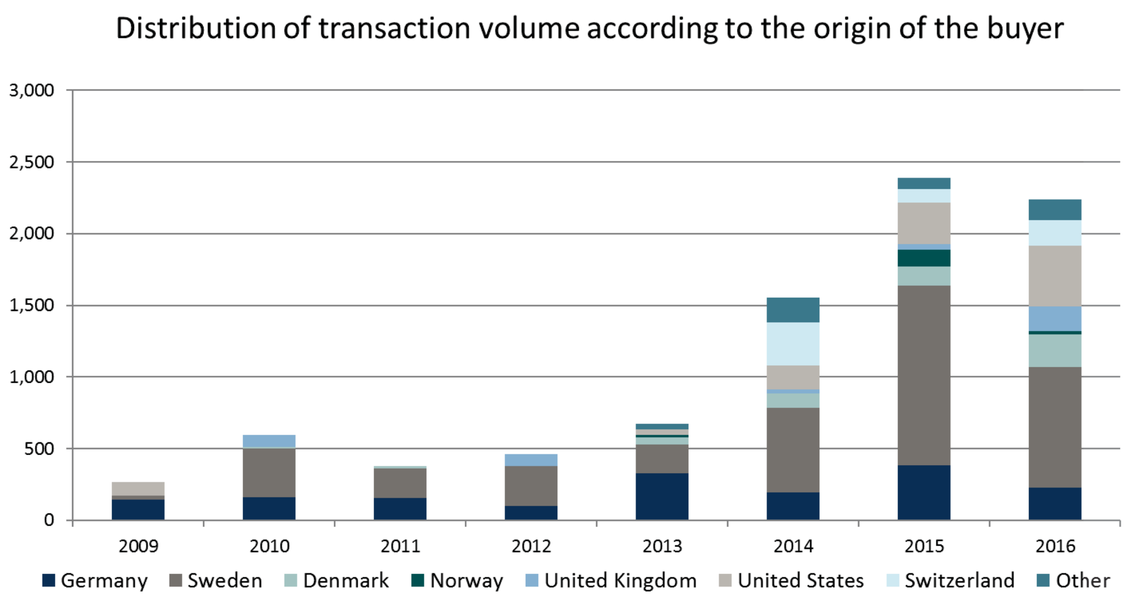

Figure 11 Distribution of transaction volume according to the origin of the buyer, excluding domestic volume (Catella 2017)

Figure 12 illustrates the distribution of transaction volume between different property types and the share of foreign investors in each property types transaction volume. The light blue pillars represent 2016 and the dark blue pillars represent years 2009 to 2015. The grey striped pillars represent the portion of transaction executed by foreign investors. The year 2016 is record high in residential and healthcare properties. The volume has been growing steadily in almost every property type. As can be seen foreign investors are mostly active in office, retail, logistic and healthcare sectors. Foreign investors have been interested equally in both single assets and portfolios (KTI 2016c).

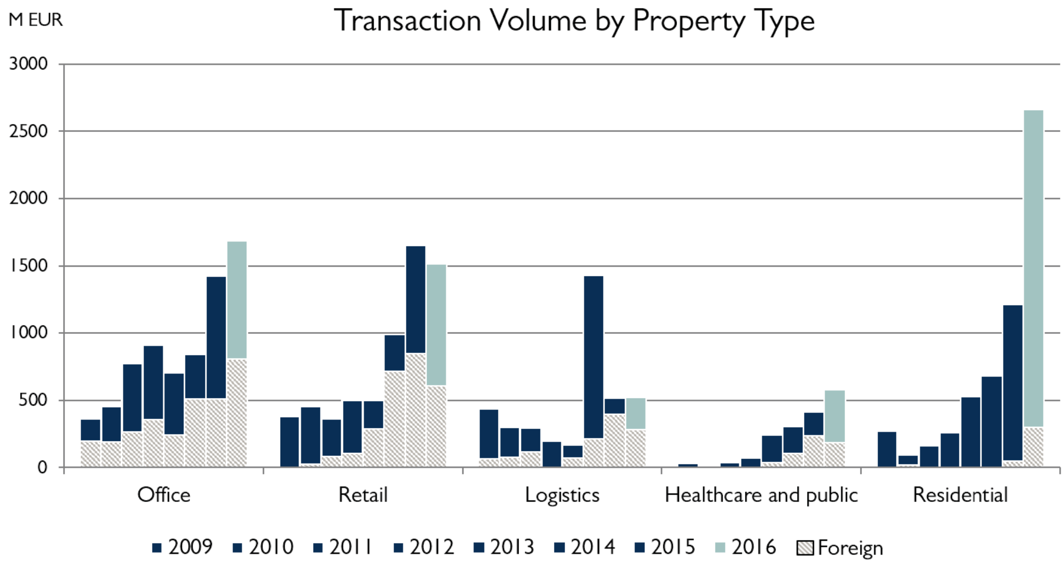

Figure 12 Transaction volume by the purpose of use and the share of foreign investors (Catella 2017)

Foreign investors have not been active in the residential market until now. In 2016, new foreign investors have entered the residential market, such as German Bayerische Versorgungskammer and Danish Nordic Real Estate Partners. According to the RAKLI-KTI Property Barometer, which was executed in October 2016 the investors in the Finnish market believed that more foreign investors will enter the Finnish residential market. (KTI 2016c, 13.)

4.2 Challenges Foreign Investors Face in the Finnish Market

When investing cross-border, foreign investors face challenges which were identified in Chapter 3. When speaking about a specific country these challenges together form a country-specific risk. Every country has a country-specific market risk, which can be highly significant depending on the country (Bond et al. 2003).

In the interviews Leinonen (2009) conducted, institutional investors find Finland's country risk generally quite high regarding direct real estate investments. They mention the small market size and the strong relation to the economic situation. In contrast, they consider Finland's country risk generally low regarding indirect real estate investments. Finland's country risk will be discussed by dividing it to seven categories as in chapter three: transaction costs, information disadvantages, political risks, economical risks, currency risk, liquidity, execution risks and other possible challenges.

Transaction costs

The main components of transaction costs for commercial properties are transfer tax, agent fees, legal fees, notary fees and VAT on fees (Nozeman 2010, 4). Transfer tax in Finland depends on the property ownership. There are two forms of property ownership, direct property ownership or owning the property through a limited company (which is solely founded for the purpose of owning the property). The transfer tax for direct properties is four per cent of the sale price, whereas for limited companies it is two per cent. (KTI 2016a, 24-25.) In addition, real estate can be bought throw corporate acquisitions, but this has been excluded from this thesis as it is notably different by nature to sell or buy a corporation compared to the acquisition of the two other ownership forms. Legal fees in Finland are determined by the amount and quality of work required (Suomen Asianajajaliitto 2016) and thus are negotiable. Notary fees in Finland are standard rate, 120 euros for a transaction in the case of direct property ownership (NLS 2016) and when selling property through a limited company, there is no notary fee, as the transaction is not registered to the land register. Value-added tax (VAT) on fees is 24 per cent in Finland (Finnish Tax Administration 2016).

There can be notably differences between transaction cost levels between different countries, but in most countries transaction costs inside the country are the same for every investor. In Finland transaction costs in general are the same for every investor. Transaction costs can be divided in to two groups; those that are obligatory and same for all investors and costs that are optional. Every direct real estate transaction in Finland must pay transfer tax, and notary fees in the case of direct property ownership. Some researchers argue that these transaction costs are already priced in the markets and thus are not regarded as a challenge (Eichholtz et al. 2011).

Information disadvantages

In the last years, Finland has been promoting information availability for example by opening up access to public sector data (Forsström 2014). According to KTI (2016a), the Global Corruption Perceptions Index (Transparency International 2016) for 2015, identified strong access to information systems in Finland. An important issue concerning information costs is transparency. According to Global Real Estate Transparency Index by Jones Lang Lasalle (2016) Finland is highly transparent ranking 10 out of 109 countries. Figure 13 present the results of the Global Real Estate Transparency Index 2016 (JLL 2016). The lighter colours represent good transparency levels and the darker ones' low transparency levels. The grey areas have been excluded from the measurement. All of the neighbouring countries of Finland are less transparent than Finland. In Europe just few countries are categorized to the highly transparent class with Finland, these countries include Germany, France and United Kingdom.

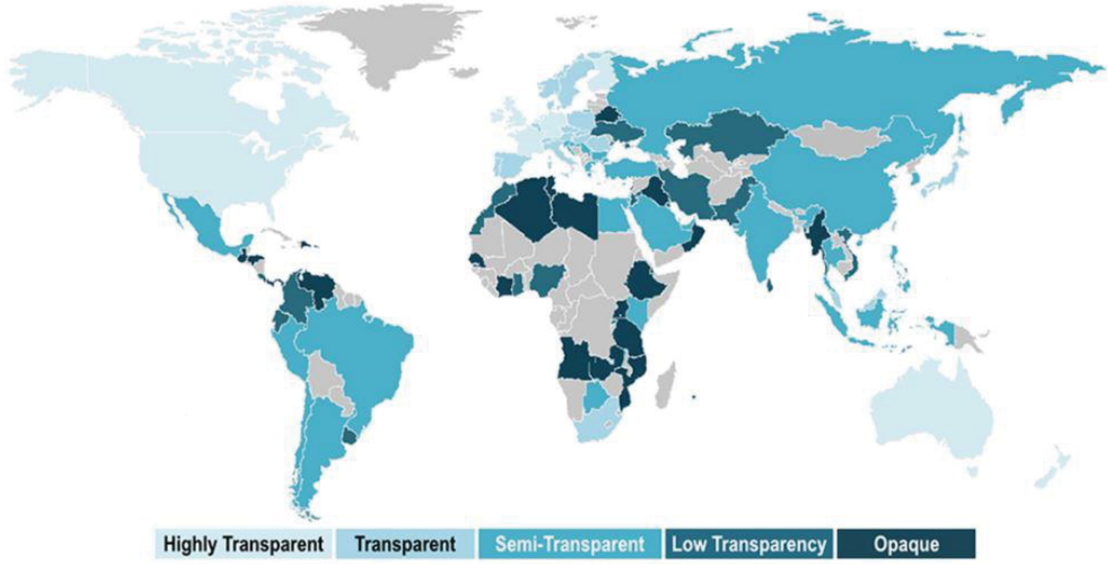

Figure 13 Global Real Estate Transparency Index 2016 (JLL 2016)

Falkenbach (2010) conducted a survey study about market selection focusing on Finnish market. Familiarity was considered as a factor that effects market selection, mostly through market knowledge and competitive advantages in the market.

Political Risks

As established in Chapter 3 political risk is important not only in less developed countries but also in developed countries. Political risk consists of multiple factors such as government stability, corruption and law and order, which all contain many sub-factors.

The overall political situation in Finland is stable, even though there is a growing rate of dissatisfaction with the political leadership in Finland. This is mostly due to sluggish economy and relatively high unemployment rate. In the ranking system of Freedom House (2016) Finland scored full points of political rights, which means that the electoral process, political pluralism and participation and functioning of government are all well working, free and fair in Finland. (Freedom House 2016.)

There are a few studies that discuss political risk in Finland in connection to real estate investments. Falkenbach (2010) conducted a survey study about market selection focusing on the Finnish market. The most mentioned factors where under the subcategory of political risk and country risk. According to Lieser and Groh (2011) Finland was the 19th most attractive country. Finland scores high points in administrative burdens and regulatory limitations together with socio-cultural and political environment. Similarly, according to A.M. Best (2016) country risk rating Finland's political risk is very low (Figure 14). Finland performs the weakest in fiscal policy and labour flexibility, although they are still in a good level. The main factors that influence the result negatively is that Finland struggles with relatively high unemployment rate, asylum seekers, aging population and the need for a pension and healthcare system reform. Figure 14 also present the world average on political risk. Finland has clearly a lower level of political risk than the world average. (A.M. Best 2016.)

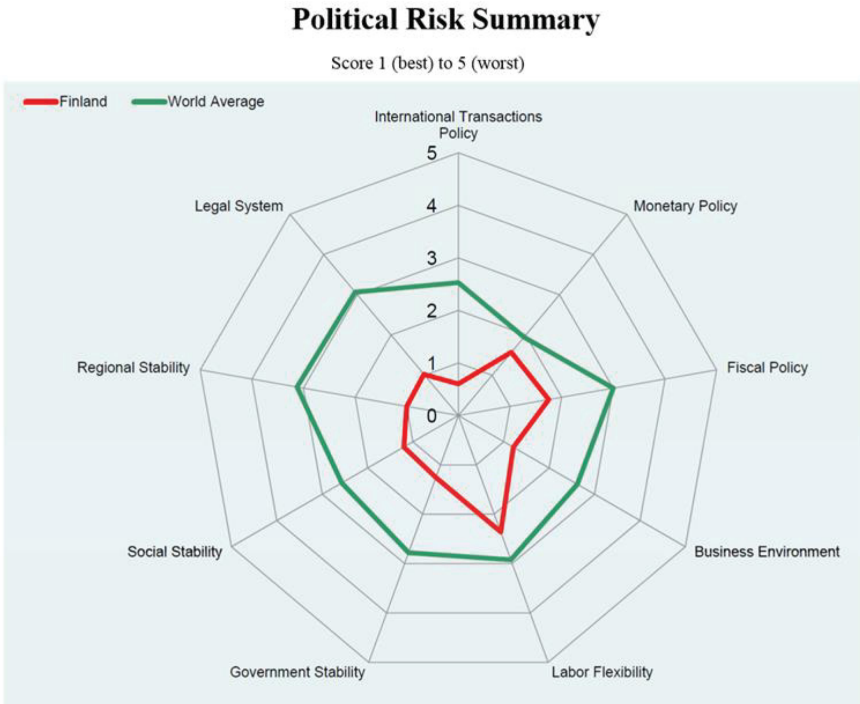

Figure 14 Political risk summary (A.M. Best 2016)

The Finnish legal system is stable, simple and liberal (KTI 2016a), this is also shown by the Rule of Law Index (WJP 2016) where Finland is ranked three out of 113 countries. On the eight factors measured; Finland ranks first in criminal justice, second in fundamental rights and order and security, third in constraints on government powers and openness of government, fourth in absence of corruption, seventh in regulatory enforcement and tenth in civil justice.

The Finnish legislation about rental activity of commercial properties is regarded as flexible and neutral for both parties which means neither pro-landlord nor pro-tenant practises are regulated. There is an extensive freedom of contract with a very few limitations. The legislation for residential apartments is more pro-tenant by nature. (RAKLI & KTI 2015, 46.)

Property rights in Finland are strong according to the Economic Freedom (2016) index. This means that Finland's laws protect private property rights well and that government enforces those laws. Property rights are founded on the constitution of Finland which states that property of everyone is protected (Heinonen 2008, 51).

There are no restrictions on buying or selling real estate in Finland (KTI 2016a, 20). Whereas, expropriations are more popular in Finland than in many other countries (Heinonen 2008, 64). Expropriations in Finland are executed by the National Land Survey (NLS) of Finland. The juridical system is only used if the parties appeal to the Land Court (Heinonen 2008, 51). This is not common around the world as in most countries the courts of justice make the decisions on compensations for expropriated property. The Finnish expropriation process is said to be functioning and effective. It is also said to be fair as the surveyor, who is the chairman of the expropriation committee, is a professional engineer in real estate valuations. All parties are treated equally in the process. Thus, the amount of compensation is not dependent on how well the parties present their case. (NLS 2009.)

Finland has strong international relations. Co-operation with the Nordic countries is close and maintained by a membership in the Nordic Council. Finland is also part of the European Union (EU), Eurozone and United Nations (UN). Furthermore, Finland keeps close relations with Russia and the Baltic States. Finland also participates in many universal programs and councils such as NATO's Partnership for Peace Programme and North Atlantic Co-operation Council. (Foreign & Commonwealth Office 2015.)

The Overseas Business Risk Guidance of Foreign and Commonwealth Office (2015) presents that the crime levels in Finland are on a low level. Organized crime is a slight issue in Finland. They often include members from neighbour countries and have links with organised crime groups from other countries. There are approximately 80 organized crime groups in Finland with approx. 1000 members. The threat of terrorism in Finland is very low. Furthermore, both political, economic and social rights are strong in Finland. (Foreign & Commonwealth Office 2015.)

As was established earlier in chapter three, even though the existing research found that political risk is low in developed countries such as Finland, the news lately tells a different story. Especially the uncertainty concerning European Union countries and their membership in the Union and in the euro affects Finland. Many important elections will be organised in 2017 in Europe which can, at worst, threaten the future of the whole European Union (Gerich 2016).

Figure 15 below presents the results of the corruption perception index by Transparency International (2016). The scale is from yellow to red, yellow representing low corruption and red high corruption. By analysing the figure, it can be observed that the overall corruption level in the world is quite high. Finland is the second "cleanest" country out of 167 countries. The score "very clean" means that there is a very low level of corruption in Finland. However, there are still some corruption cases in Finland. Yle (2016a) reported in spring of 2016 that TeliaSonera, which is Sweden's partly state-owned firm from which Finland also has a minority stake, has been accused of huge bribery allegations in Uzbekistan. In addition, in the fall of 2016 Yle (2016b) reported that the former head of Helsinki police's antidrug squad was sentenced of charges including fraud and accepting bribes.

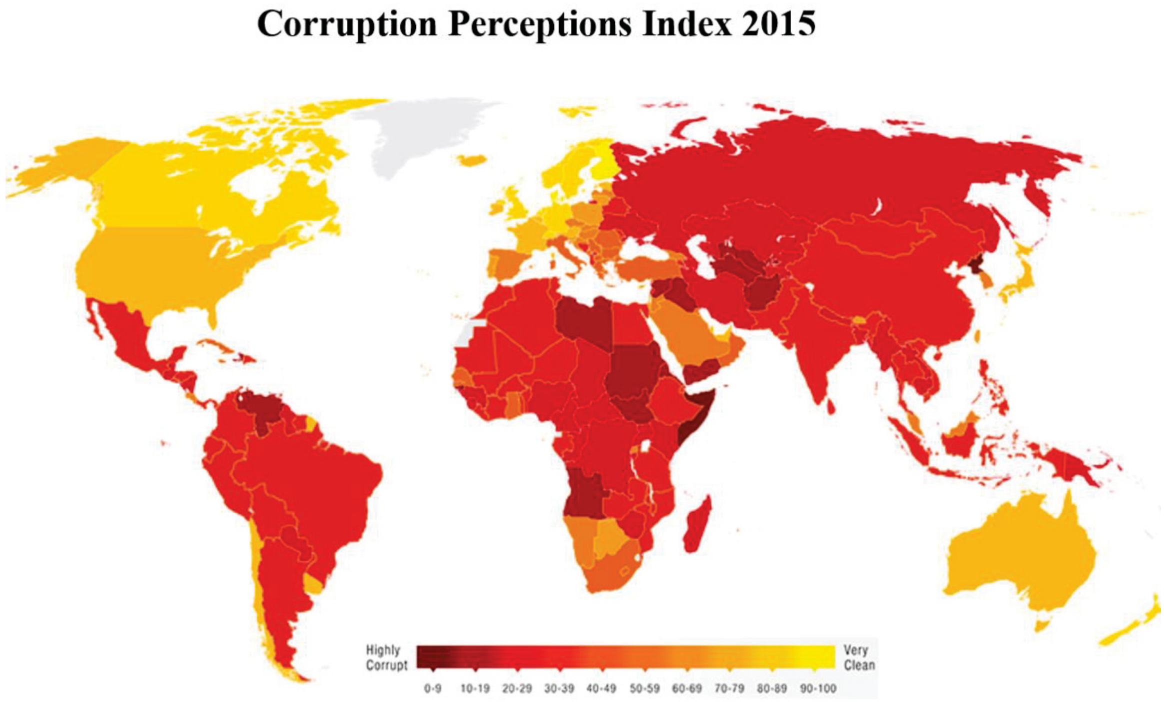

Figure 15 Corruption perception index 2015 (Transparency International 2016)

Political risk seems to be a key factor in market selection. Yet in most studies political risk in Finland is found quite low. It is important to bear in mind that even though Finland's own political risk may be low, other countries political risk may affect also Finland.

Economical Risks

In Chapter 3 it was established that economical risk includes at least three factors economic growth, inflation and debt level. The economic growth in Finland has been examined earlier in this thesis; it has been established that the economic situation in Finland is rather poor in recent years. The economic growth in Finland is sluggish and the GDP growth level has been below the euro areas average for more than four years (Eurostat 2016a). On the other hand, the news is not all bad, as service export has reached a record high in 2016 (Statistics Finland 2017).

Figure 16 presents inflation rates in Finland, the U.S and the average rate of the euro area (EU19). Dark red represent EU19, dark blue Finland and grey represent the U.S. As can be seen, the inflation rate in Finland is quite stable. During 2004 to 2015 the rate has varied from zero per cent to almost four per cent. The inflation rate of Finland is quite close to the average of the euro area and the U.S especially for the last five years. Thus, it seems that inflation risk does not cause extra risk in Finnish property market.

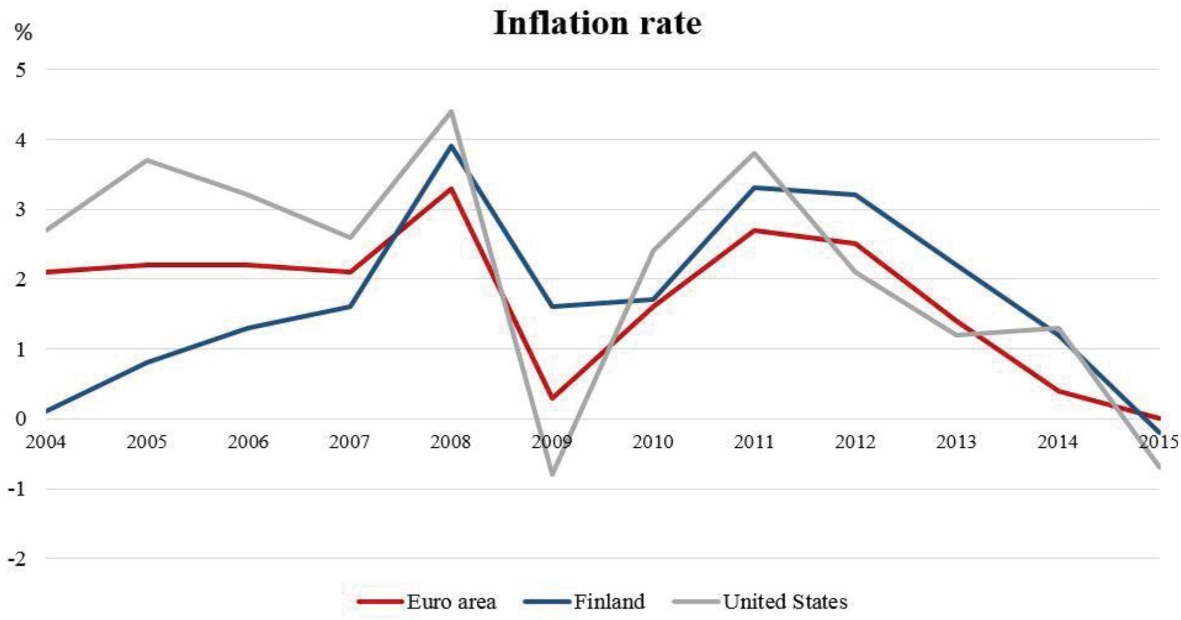

Figure 16 Inflation rate in euro area (EU19), Finland and the U.S (Eurostat 2016c)

According to the rules of the Economic and Monetary Union (EMU) of the EU, the total amount of government debt should not exceed 60 per cent of GDP in any country (European Commission 2016). Figure 17 presents the debt level of some EU countries. When examining the figure, it can be noticed that many of the EU countries exceed this limit, including Finland. All tough, Finland’s deficit in 2015 was only 2.7 per cent, which is under the reference value of the European Union, which is 3.0 per cent (CFI 2016). The debt level of Finland is approximately at an average level compared to the other countries.

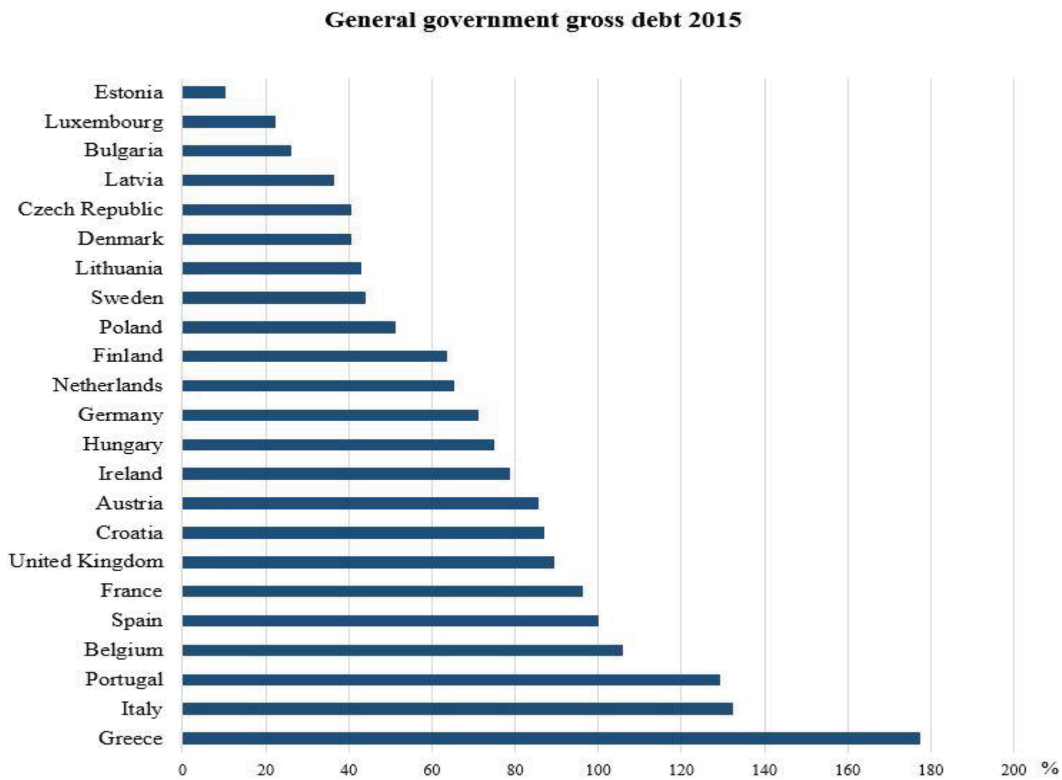

Figure 17 General government gross debt in some of the EU countries (Eurostat 2016d)

According to A.M. Best (2016) country risk rating, Finland's economic risk is low. Furthermore, according to the same rating Finland's financial system risk is very low. In addition, Finland holds the highest credit ratings from two of the three credit rating agencies (Moody's and Fitch ratings). The results of the country risk ratings seem to be in contravention with the actual economical situation in Finland. In Lieser's and Groh's (2011) study Finland was the 19th most attractive country, yet scoring quite low score in depth of capital market.

Falkenbach (2010) has conducted a survey study about market selection focusing on the Finnish market. The most mentioned factors after political risk and country risk where under the sub category of general economy. This would suggest that the economic situation would influence the investment decision of investors, yet this seems not to be the case in Finland. Even though there are not much good news about the economy in Finland, the real estate market is very active and hits record levels in 2016. Thus, the real estate market overrides the weak economy in Finland. There are two long-term trends that affect the real estate investment markets rising activity: substantial increase in liquidity and strong urbanisation trend. The rise in liquidity is due to the movement of capital from low interest rate instruments to the real estate market. (Catella 2016 b.) In the study of Baum and Murray (2011, 16) some interviewees were in the opinion that they are not so focused on the economic stability of the country, as they can't control it and hence focus more on the analysis of the individual property.

Currency Risks

Cross-border investments indicate exposure to foreign currencies unless the investment is for example inside the euro zone where euro has eliminated the currency risk among member countries (Kalemli-Ozcan et al. 2010). The release of capital markets and internationalisation in Finland has introduced currency risk in to the lives of Finnish investors. Attitudes regarding currency risk and how to protect investments from it, divides opinions among investors. (Olkkonen et al. 1997, 17.)

Antell and Vaihekoski (2007) have studied currency risk in Finland. In many emerging or small markets currency risk can be in an important role since their exchange rate mechanism often differs from larger and mature markets. They conclude that the price of currency risk is notably different from zero and that currency risk is not time varying. They also find out that local risk is priced in the Finnish market, while local market risk is not priced in the US market. In the survey Falkenbach (2010) conducted on market selection, focusing on the Finnish market, Euro was not identified as a key factor. This was interesting as currency risk is traditionally been an important challenge in international real estate investment. The increased level of experience and availability of currency hedging could explain this.

As established in chapter 3, currency risk is due to currency fluctuations. In figure 18 is presented the exchange rate of euro to U.S dollar. As can be seen, currency fluctuations occur constantly. From 2000 to 2015 euro has been in its weakest on July 2001 when one euro was worth 0.85 U.S. dollars. The euro was in its strongest on July 2008 when one euro was worth 1.58 U.S. Dollars. For example, in July 2001 EUR 15 million has been worth approximately USD 12.8 million whereas in July 2008 it has been worth approximately USD 23.7 million. Thus, currency risk can be substantial in Finland for an investor that comes from outside the euro zone.

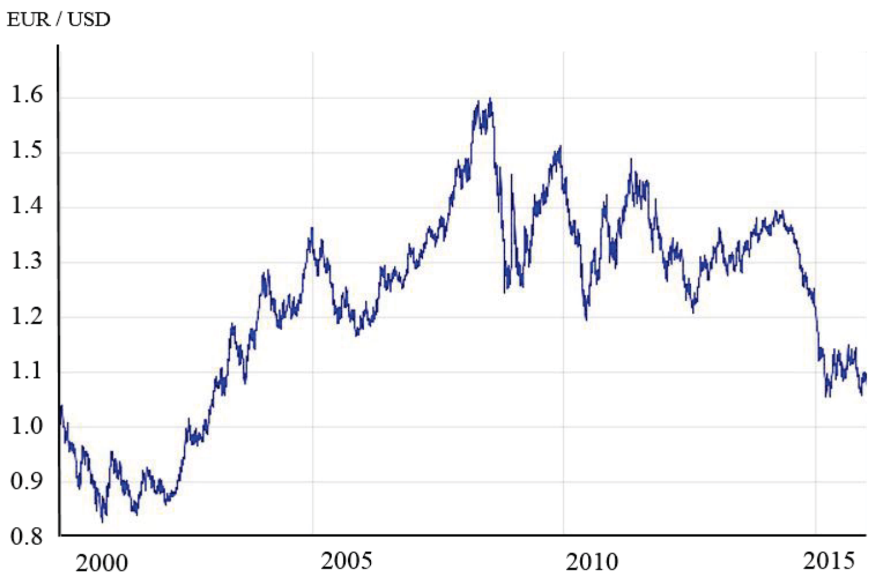

Figure 18 Exchange rate of euro to U.S. dollars (European Central Bank 2016)

Liquidity Risk

In chapter three, different liquidity measures were presented. From the measures that are suitable for real estate just few are measurable in Finland due to the private nature of the real estate market in Finland. Falkenbach (2010) conducted a survey study about market selection focusing on the Finnish market. Under property market factors, one of the most mentioned subcategories was property market size and liquidity.

Transaction volume is one liquidity measure that is available in the Finnish property markets. According to Ametefe (et al. 2015, 7) there is empirical evidence that more active markets tend to be more liquid and that increased trading activity is linked to more liquid markets through ease of access and decrease in transaction costs. As seen before from Figure 1 the transaction volume in Finland has been rising constantly which indicates that liquidity has been improving in Finland. Also, according to Catella Property Oy (2016b, 3) the liquidity has increased enormously in the Finnish real estate market. They explain the increase because of central banks' actions and movement of assets from zero interest rate instruments to the real estate market. In Figure 12 the transaction volume has been divided between different property types. The most active property class is residential properties, which would indicate that it is the most liquid asset class. It is also common knowledge that residential properties are a very liquid property type compared to other property types.

Liquidity is also said to improve when the number of investors in the market rises (RAKLI & KTI 2015, 35). The number of investors in the Finnish property market has been constantly growing, as many new foreign investors have entered the market (KTIa, 28). Thus, it can be regarded, that the liquidity in the Finnish property market has been improving also on this account.

Catella Property's (2017b) CREDI-survey indicated that the availability of funding stayed on the same level than in 2016. All tough, in 2016 the trend of more relaxed real estate funding, which have been ongoing for nearly four years, ended in 2016. Thus, funding liquidity can be said to lowered a little in 2016, but stayed the same in 2017. In Sweden, the development toward tighter real estate funding started before Finland. (Catella 2017b; Catella 2016b.)

Execution Risks

In Finland, existing real estate management seems to be increasingly important factor for real estate investors (Catella 2016a). Property management in Finland is usually done by property and building managers (Rakli 2012, 15). There are constantly arriving new forms of services to the real estate services area. New trends in the 2000's are for example outsourcing, One-Stop-Shopping, different user services, consultancy services, the use of intranet and internet in facility services and long-term cooperative relationships in real estate services (partnerships). (Heinimäki & Puhto 2001, 38.) Real estate services include all kind of services relating to real estate, from purchasing to exit. In Falkenbach's (2010) study, she distinguishes factors that orient market selection from the perspective of international real estate investors in the Finnish market. Availability of real estate related services was mentioned only by three interviewees out of 29 interviewees. This is surprising as outsourcing is a trend and management is increasingly important in the minds of investors. Availability of services are supposed to be important especially for foreign investors that do not have a branch office in the country as they need somebody to manage the property if they are not present.

Other Challenges

Other challenges mentioned regarding the Finnish real estate market include investment opportunities (Lieser and Groh 2011), market maturity and organisational factors (Falkenbach 2010).

In the study conducted by Lieser and Groh (2011), Finland scores quite low score in real estate investment opportunities. Many foreign investors are still strongly fixated on prime properties in prime locations (Mitropoulous 2014). Finland is a rather small country and the number of prime properties in prime locations is rather small.

5 Empirical Research

Based on current research and data, it is hard to say what are the challenges that in reality concern foreign investors when investing in the Finnish property market. The goal of the empirical research is to find out what challenges, of those identified in Chapter 3, does foreign investors highlight in the Finnish property market.

5.1 Empirical Research Methods

A survey can be both a qualitative and quantitative research method. The survey provides the author with a sample of results from which the author can generalise and make claims about the population. In a survey, the data is collected in a formal, structured way, which means that the questions are exactly the same for all the respondents. (Creswell 2009.) Surveys are very popular around the world and are a key tool for studying economical trends and test theories of behaviour (Groves et al. 2009).

The advantages of the survey are that it is a cost-effective way to collect larger samples and it is a good format to collect data about behaviour and actions, facts, information, attitudes, beliefs, values, insights as well as opinions. There are also some disadvantages as well. It is not possible to be sure how serious the respondents take the survey or to know how deeply the respondents know the topic. Also, it is not possible to control the misunderstandings in a survey. (Hirsjärvi et al. 2007, 188-199.)

In this thesis survey is being used as a method because it allows to get a larger amount of responses effectively. The target group of this survey is foreign investors. It could be hard to arrange interviews face to face or even by phone with investors around the world. In addition, survey also answers the research question better as the goal of the research was to identify the factors that foreign investors find challenging in Finland from the challenges identified in Chapter 3.

5.2 Data Collection

Figure 19 presents the stages in the survey making process. The process starts with planning the survey and ends with the results of the survey. The process will be presented below stage by stage.

Figure 19 Stages of the survey making process

The planning of the survey started with reading literature about survey studies. The main reference used was a work by Kimmo Vehkalainen which covered the whole survey process very extensively. Also, other literature regarding research methodologies was used. The challenge with survey studies is that after the survey has been send to the recipients, it cannot be changed. Thus, the survey must be planned well and with proper knowledge. (Vehkalahti 2014.)

The survey form was done digitally in the service of Surveypal. The form was done in English and is presented in Appendix 2. The survey included some opening words that lay ground for the survey. Also, the link for the database description was presented (the database description is presented in Appendix 3).

In the beginning of the survey the respondents were asked with a multiple-choice question if they work for a company that: owns properties in Finland and has full-time employee(/s) in Finland, owns properties in Finland but do not have full-time employee(/s) in Finland or does not currently own properties in Finland. These groups were separated as it is interesting to know if there are differences in the challenges recognised between these groups.

After that seven factors and 15 sub-factors were under review by the respondents. The challenges were measured with Likert scale which is a five-number scale. Number one represented that the factor was not regarded as a challenge at all and number five represented that the factor was definitely regarded as a challenge. The other numbers between represent the option between the extremities as an evenly sliding case. Because the definition of political risk and executional challenges was difficult based on the literature studied, these factors were not divided in to sub-factors, but were asked separately in open ended questions. In the end of the survey the respondent were asked if they had come across any other challenges in Finland. The questions based on Likert scale were compulsory to answer but the open questions were optional.

After the survey answers were submitted, a new window was opened were the respondent was asked to fill in their contact details (name and company). The survey was made in a way that the contact details could not be linked with the answers, thus the answers are anonymous. The contact details were asked so that the author could follow who responded the survey and who not, so that the ones that did not answer could be reminded. This way the rate of responses was raised.

Time was devoted for the clarity and appearance of the survey so that it would be easy to understand and look presentable. The form was tested and commented by a few colleagues at Catella Property Oy before finalising and publishing it.

The aim of the survey was to collect information from a larger group of foreign investors. The list of recipients was formed by the help of Catella Property Oy in order to include relevant companies and persons. It contained foreign investors from the three groups presented before: companies that own properties in Finland and has full-time employee(/s) in Finland, companies that own properties in Finland but do not have full-time employee(/s) in Finland and companies that do not currently own properties in Finland. The respondents chosen were the people who analyse the decisions on international property investments and allocations in their organisation or the ones that make the decision. The group that do not have investments currently in Finland included companies that have exited the market and companies that have been scouting the Finnish real estate market.

The survey was sent via email on 21.3.2017. The email was written in Finnish to the Finnish-speaking persons and in English to the English-speaking persons. The timing was carefully considered. The survey was sent after MIPIM (which is a large real estate exhibition in Cannes) and before the Easter holidays. The questionnaire was sent to 75 foreign investors. All the respondents were first approached by an email with the survey link and background of the study. After a week, another email was sent to those that haven't answered the survey. Lastly, some calls were made so that enough replies could be gathered. In the end 25 replies was gathered resulting in a response rate of 33 per cent. Figure 20 shows the distribution of the respondents. Most answers, 17 in total, were got from the respondent category "owns properties in Finland and has full-time employee(/s) in Finland". Seven respondents represented the category "owns properties in Finland but do not have full-time employee(/s) in Finland". Lastly, only one person was reached from the category "does not currently own properties in Finland". The average response time to the questionnaire was seven minutes.

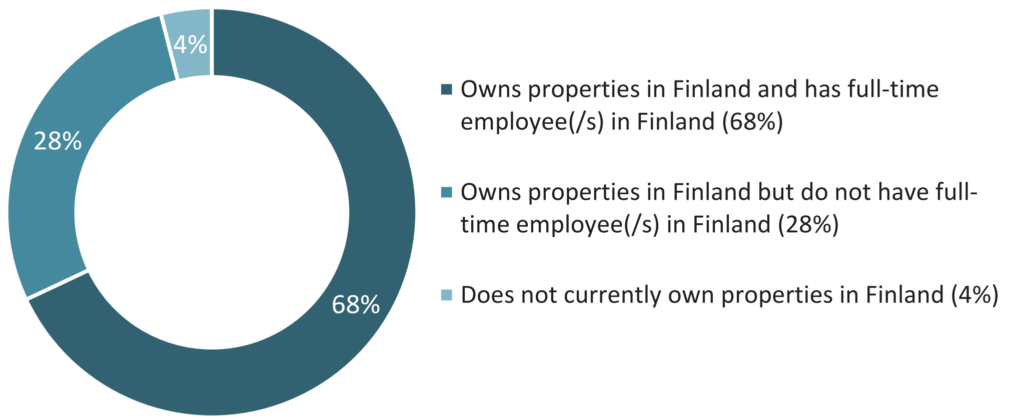

Figure 20 The respondents of the survey

The data was analysed with Microsoft Excel spreadsheet software and not statistical software because the sample of the survey was too small. From each factor is presented the standard deviation, average and median.

5.3 Testing the data

Data was tested with the Mann-Whitney U test in IBM SPSS Statistics program. The idea of the test is to check whether there are statistically significant differences between two respondent groups. This test was used as it does not assume normal distribution in the data and it is well suitable for a scale that bases on opinion. (De Winter and Dodou 2010.)

There are three respondent groups as presented in Figure 20. The category "does not currently own properties in Finland" received only one answer. This answer was from a company that has exited the Finnish real estate market a few years ago and did not have any employees in Finland. Thus, it was attached to the category "owns properties in Finland but do not have full-time employee (/s) in Finland”. Thus the data has two respondent groups.

The result of the test is presented in Figure 21. The null hypothesis of the test is that the mean ranks of these two groups are the same. The null hypothesises of the test are presented in column “Null Hypothesis”. The P-value of the test is presented in column “Sig.”. The result, whether or not to retain or reject the null hypothesis, is presented in column “Decision”. This is decided according to the P-value; if the P-value is less than the significance level of 0.05 the null hypothesis is rejected. This means that the medians are not all equal. When going through the results it can be noticed that only one factor has a P-value that is less than the significance level thus the null hypothesis is rejected. This factor is information costs in general. Thus there are almost no statistically significant differences between the two respondent groups.

Hypothesis Test Summary

	Null Hypothesis	Test	Sig.	Decision
1	The distribution of Transac-tion costs in general is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,209[1]	Retain the null hypothesis.
2	The distribution of Registra-tion of title is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,147[1]	Retain the null hypothesis.
3	The distribution of Real estate agent fees is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,166[1]	Retain the null hypothesis.
4	The distribution of Legal fees tothe lawyers or conveyan-cer is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,147[1]	Retain the null hypothesis.
5	The distribution of Sales and transfer taxes is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,576[1]	Retain the null hypothesis.
6	The distribution of Informa-tion costs in general is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,019[1]	Reject the null hypothesis.
7	The distribution of Lack of transpa-rency is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,157[1]	Retain the null hypothesis.
8	The distribution of Informa-tion asymmet-ries between local and foreign investors is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,406[1]	Retain the null hypothesis.
9	The distribution of Political risk in general is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	1,000[1]	Retain the null hypothesis.
10	The distribution of Economi-cal risk in general is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,215[1]	Retain the null hypothesis.
11	The distribution of Economic growth of Finland is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,057[1]	Retain the null hypothesis.
12	The distribution of Inflation of Finland is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,842[1]	Retain the null hypothesis.
13	The distribution of Debt level of Finland is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,842[1]	Retain the null hypothesis.
14	The distribution of Currency risk in general is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,669[1]	Retain the null hypothesis.
15	The distribution of Liquidity risk in general is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,669[1]	Retain the null hypothesis.
16	The distribution of Funding liquidity (the ability to gain funding) is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,344[1]	Retain the null hypothesis.
17	The distribution of Trading liquidity is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,798[1]	Retain the null hypothesis.
18	The distribution of Execution risks in general is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,288[1]	Retain the null hypothesis.
19	The distribution of Cultural challenges is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,475[1]	Retain the null hypothesis.
20	The distribution of Discrimi-nation is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,588[1]	Retain the null hypothesis.
21	The distribution of Geograp-hical barriers is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,932[1]	Retain the null hypothesis.
22	The distribution of Market size is the same across categories of The company you work for....	Independent-Samples Mann-Whitney U Test	,344[1]	Retain the null hypothesis.

Asymptotic significances are displayed. The significance level is ,05.

[1]Exact significance is displayed for this test.

Figure 21Results of the Mann-Whitney U test in IBM SPSS Statistics program

In Figure 22 the results of the factor information costs in general have been examined more closely. One represents the group that has employees in Finland and two represents the group that does not have employees in Finland. The chart below shows non-identical distributions between the groups as the graphs have substantially different shape. Thus the distribution of scores for the two groups are not equal in this factor.

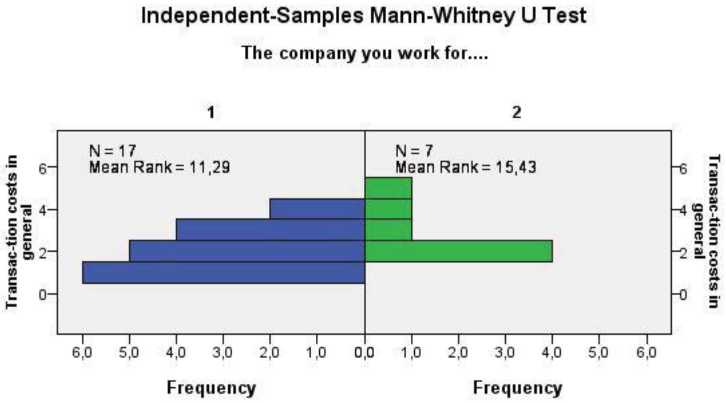

Figure 22 Results of the Mann-Whitney U test in IBM SPSS Statistics program regarding information costs in general

5.4 Results

Figure 23 presents the results of the survey. The blue spots represent the average of each factor. Number one representing a factor that was not regarded as a challenge at all and number five representing a factor that was definitely regarded as a challenge. Numbers two, three and four represent the option between the extremities as an evenly sliding case. The black lines represent the standard deviation of each factor.

The results between the factors are quite similar as the averages vary between 1.4 to 3.4. From the main challenge groups, economical risk and liquidity risk were regarded as most challenging factors. From the sub-factors market size and economic growth were regarded as most challenging factors. The spread between the answers has been quite large as can be seen from the standard deviations.

The results have also been divided between the respondent categories. The companies that didn't have employees in Finland found most challenge factors more challenging than the companies that have employees in Finland. The numeric results of the survey are presented in Appendix 4.

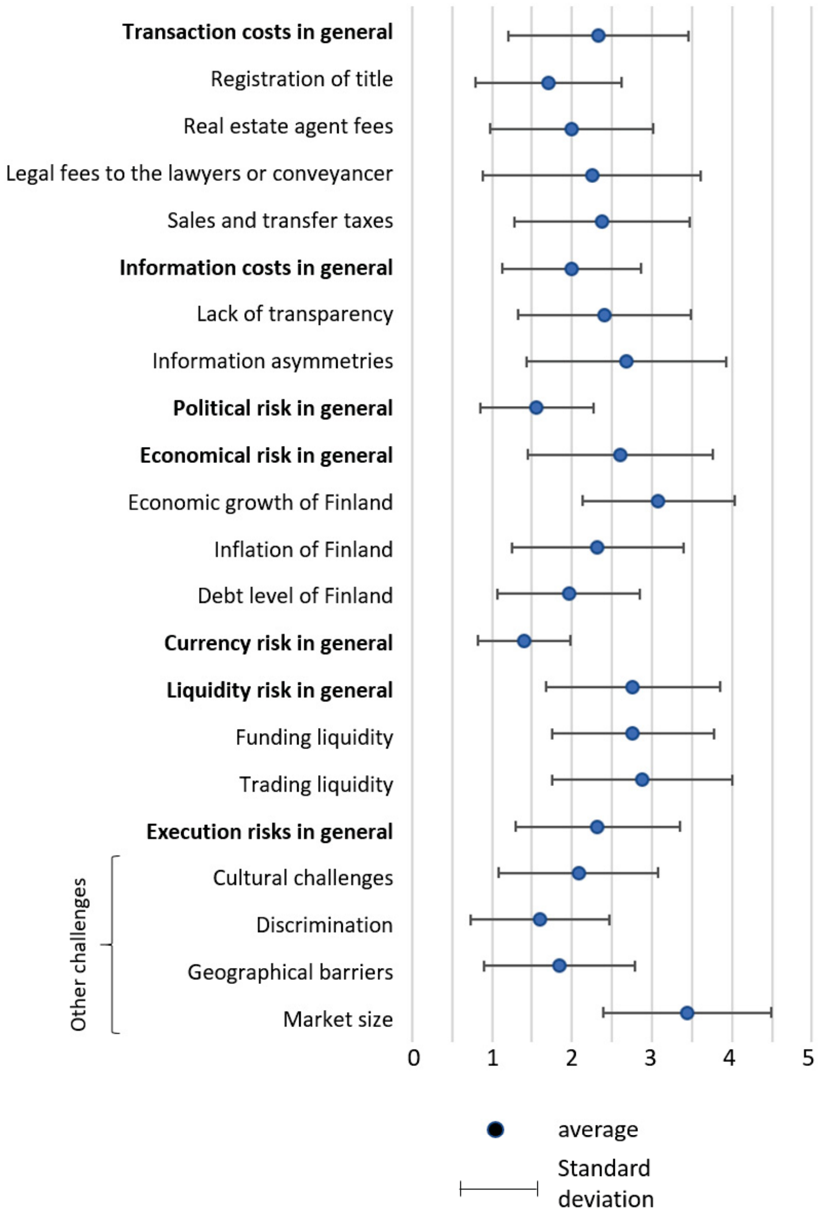

Figure 23 The average and standard deviation of each factor and sub-factor

In the next part, each challenge group will be presented separately. Every factor and sub-factor have been divided between the respondent groups and average (dots) and standard deviations (lines) are presented of each class. Blue represents the respondent group which do not have employees in Finland and red represents the respondent group that has employees in Finland.

Transaction costs

Figure 24 presents the results of the factors regarding transaction costs. Transaction costs in general were found as a challenge (average of 2.3), especially by the companies that do not have employees in Finland (average 2.9).

Transaction costs were divided in to four sub-factors: registration of title, real estate agent fees, legal fees to the lawyers or conveyancer and sales and transfer taxes. Both respondent categories regarded registration of title as least challenging sub-factor. The most challenging factor for the respondent category with employees in Finland was sales and transfer taxes (average of 2.3) and for the respondent category with no employees in Finland was legal fees to the lawyers or conveyancer (average of 2.9). The largest difference in the answers of the two respondent categories was in legal fees to the lawyers or conveyancer (difference of 0.9). The standard deviations are quite high, especially in the category that didn't have any employees in Finland.

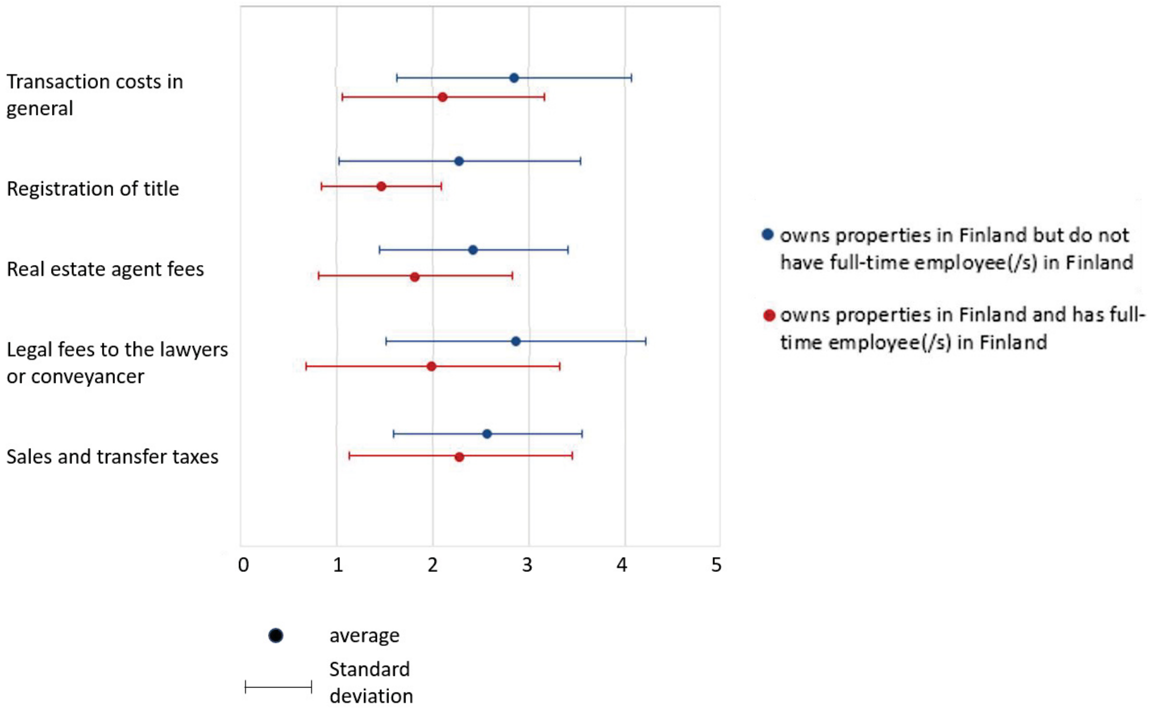

Figure 24 Transaction costs

Informational disadvantages

Figure 25 presents the results of the factors regarding information disadvantages. When comparing information costs in general (average of 2.0) to transaction costs in general (average of 2.3), it can be noticed that information costs were regarded as less challenging. Information costs were regarded as a challenge by the respondent category that doesn't have employees in Finland (average of 2.6) but not so much by the other respondent category (average of 1.7).

Information costs were divided in to two sub-factors: lack of transparency and information asymmetries between local and foreign investors. Both factors were regarded more challenging than Information costs in general. The results are quite similar between these two sub-factors as both were regarded as challenges in the Finnish real estate market by both respondent categories. The standard deviations are quite high, especially in the sub-factor of information asymmetries.

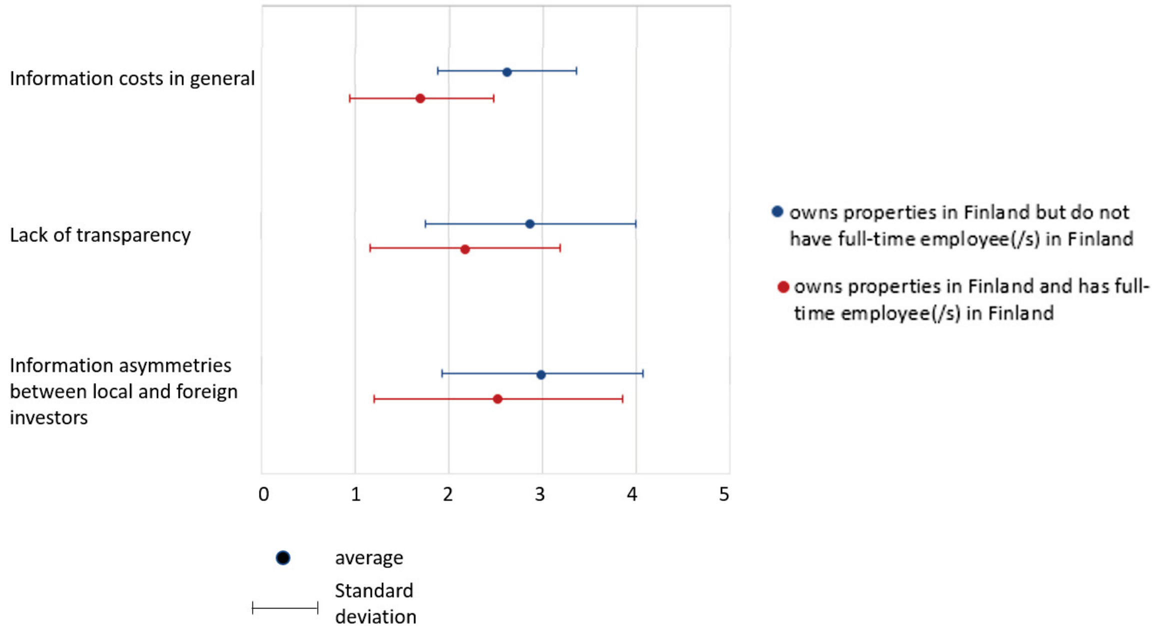

Figure 25 Informational disadvantages

Political risk

Figure 26 presents the results of the factor regarding political risk. The factor of political risk was not regarded as a notable challenge in the Finnish real estate market by neither of the respondent categories (average of 1.6). Contrary to most other factors, the respondent category that has employees in Finland regarded political risk as more of a challenge (average of 1.6) than the other respondent category (average of 1.5) even though the difference is quite small.

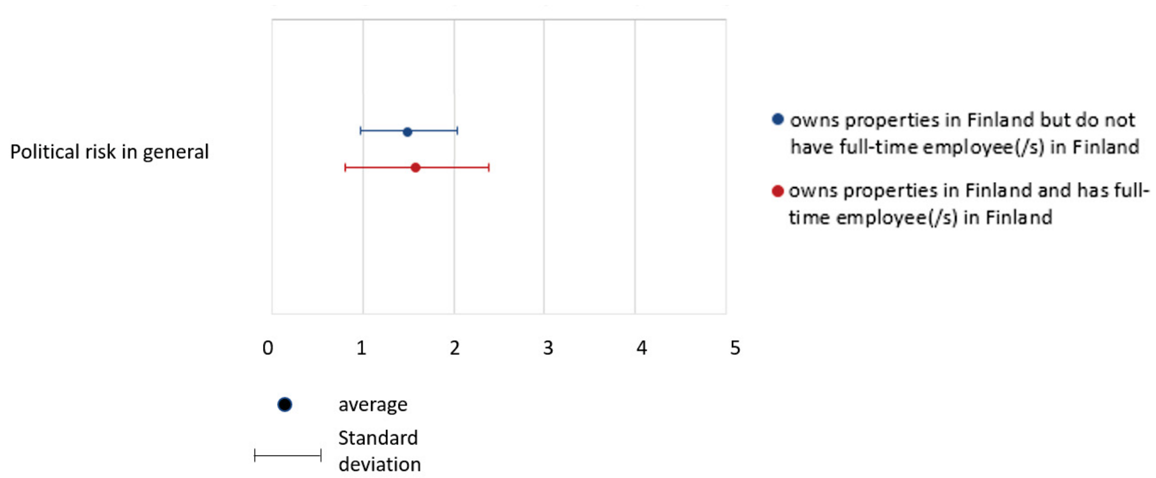

Figure 26 Political risk

Political risk was not divided in to sub-factors as there is no consensus on the definition of the word or its sub-factors. Due to this, an open-ended question about political risk was put in the survey. The question was "What kind of political risks have you come across in Finland?" and answering was not mandatory. All together 13 answer were gotten to this question from which seven answered that there are not at all or minimal level of political risk in Finland. The answers mention the fact that Finland is not a member of NATO, dependency to Russia, rapidly changing legislation, liquidity issues outside prime assets, and taxation and political agenda. All the answers are presented in Table 1.

Not NATO Partner
Finland (and Nordics in general) is politically very stable compared to other European countries. However, foreign investors often see our dependency from Russia to be at the higher level than it actually is.
None.
Same as in Europe
None
We see no risks affecting the investment appetite
Rapidly changing legislation, e.g. source of income and its effect on real estate investments in 2018.
None so far.
none
Minimal, most risks for us relate to the liquidity of the market outside of the prime assets.
nothing
Mainly related to taxation and political agenda on taxing properties and investors
Dependency on Exports to Russia

Table 1 Answers to the open-ended questions about political risk in Finland

Economical risk

Figure 27 presents the results of the factors regarding economical risk. Economical risk in general was regarded as the second challenging factor group (average of 2.6) after liquidity risk. The standard deviations are quite high in this challenge group also.

Economical risk was divided in to three sub-factors: economic growth of Finland, inflation of Finland and debt level of Finland; both respondent categories regarded debt level of Finland as the least challenging sub-factor and the economic growth as the most challenging sub-factor. When comparing the sub-factor of economic growth to all sub factors, it was regarded as the second most challenging factor after market size. As in most other factors, the respondent category that didn’t have employees in Finland regarded all these factors more challenging than the other respondent category.

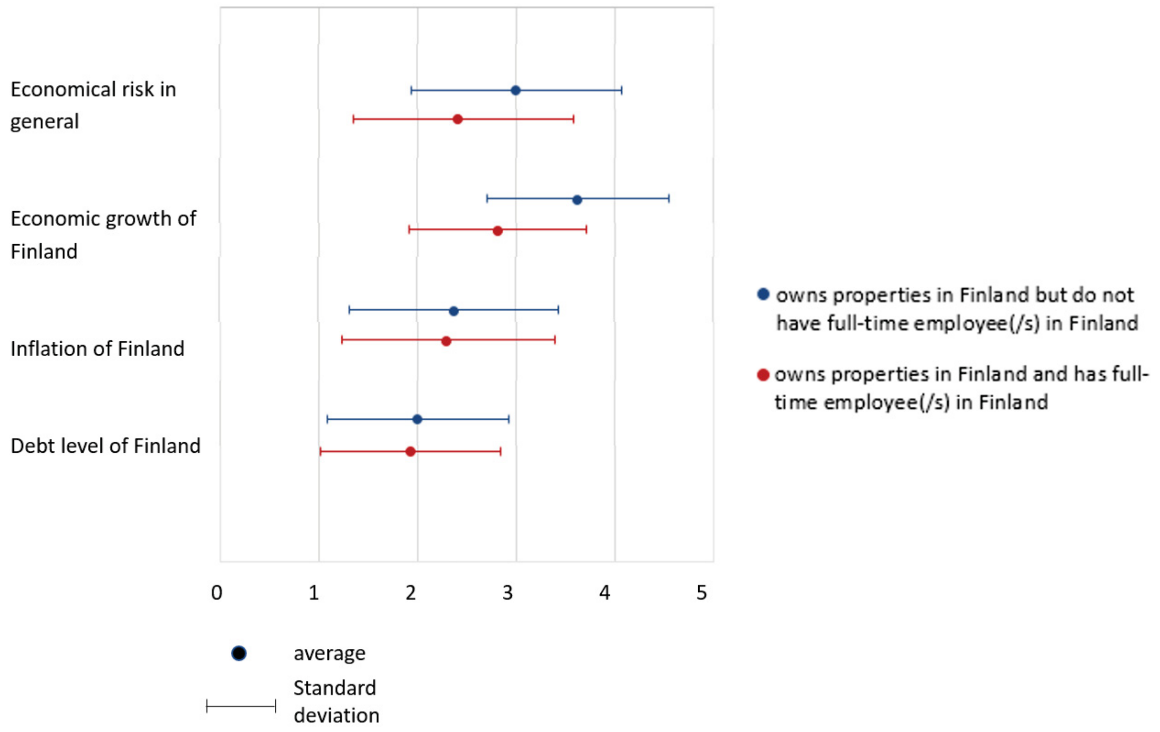

Figure 27 Economical risk

Currency risk

Figure 28 presents the results of the factor regarding currency risk. Currency risk was regarded as the least challenging factor out of all the factors and sub-factors (average of 1.4). Contrary to most other factors, the respondent category that has employees in Finland regarded currency risk as a little bit more of a challenge (average of 1.41) than the other respondent category (average of 1.38) even though the difference is very small. In addition, the standard deviation is quite high in the respondent category that didn't have any employees in Finland.

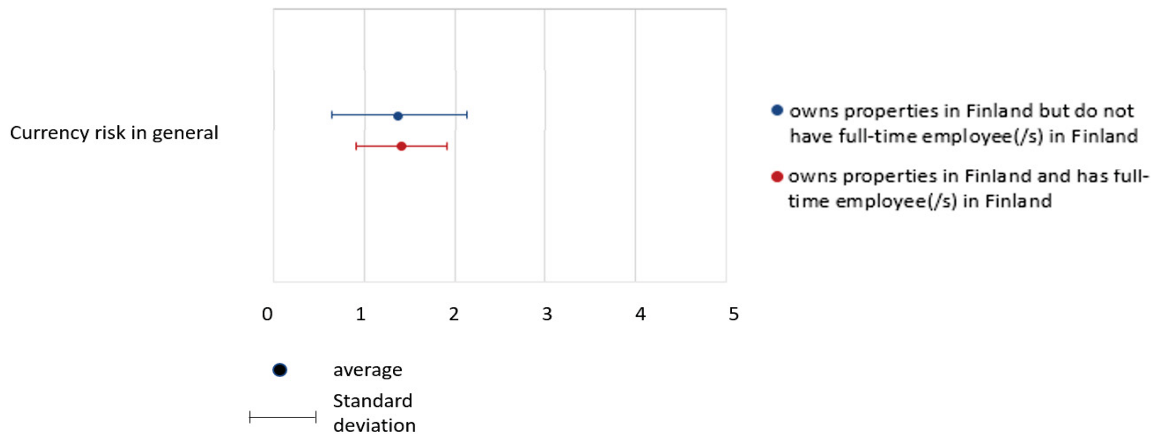

Figure 28 Currency risk

Liquidity risk

Figure 29 presents the results of the factors regarding liquidity risk. Liquidity risk in general was regarded as the most challenging factor (average of 2.8). Contrary to most other factors, the respondent category that has employees in Finland regarded liquidity risk as more of a challenge (average of 2.8) than the other respondent category (average of 2.6) even though the difference is quite small.

Liquidity risk was divided in to two sub factors: funding liquidity and trading liquidity. Funding liquidity was found more of a challenge to the respondent category that doesn't have employees in Finland (average of 3.1) than those that have employees in Finland (average of 2.6). Both respondent categories regarded trading liquidity equally challenging, yet the standard deviation of the respondent category that has employees in Finland is substantially larger.

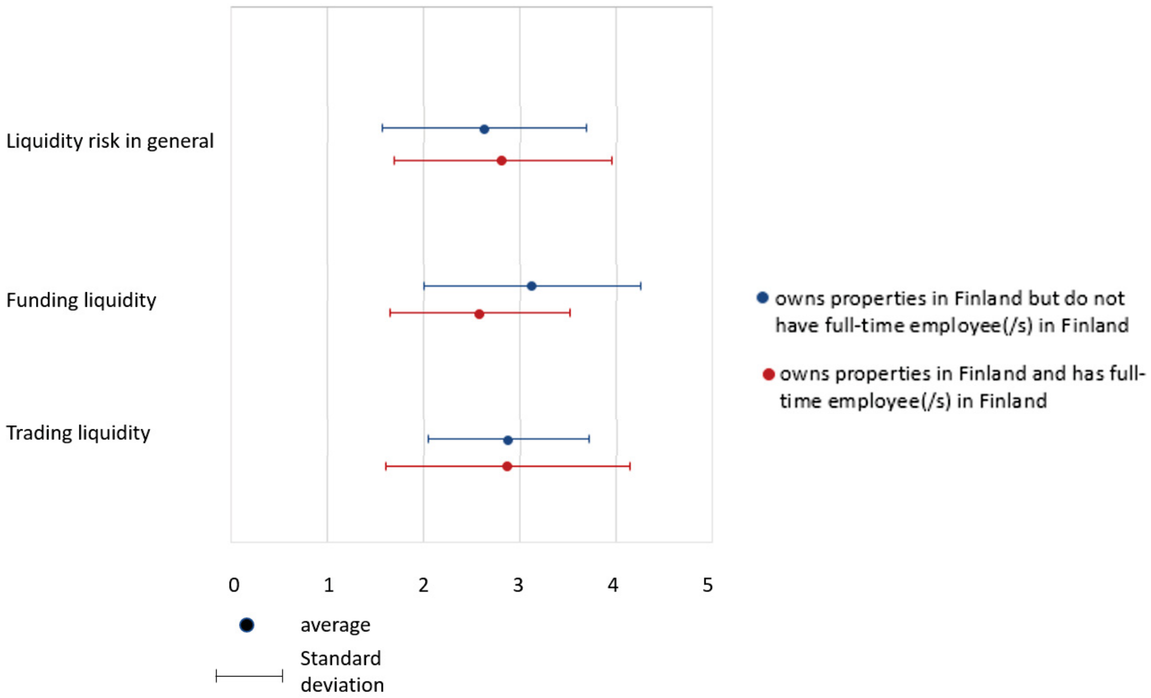

Figure 29 Liquidity risk

Execution risk

Figure 30 presents the results of the factor regarding execution risk. According to the survey execution risk was regarded as a challenge (average of 2.3).The respondent category which doesn't have employees in Finland found execution risk more challenging (average of 2.6) than the other respondent category (average of 2.2). The standard deviation of the respondent category that has employees in Finland is substantially larger.

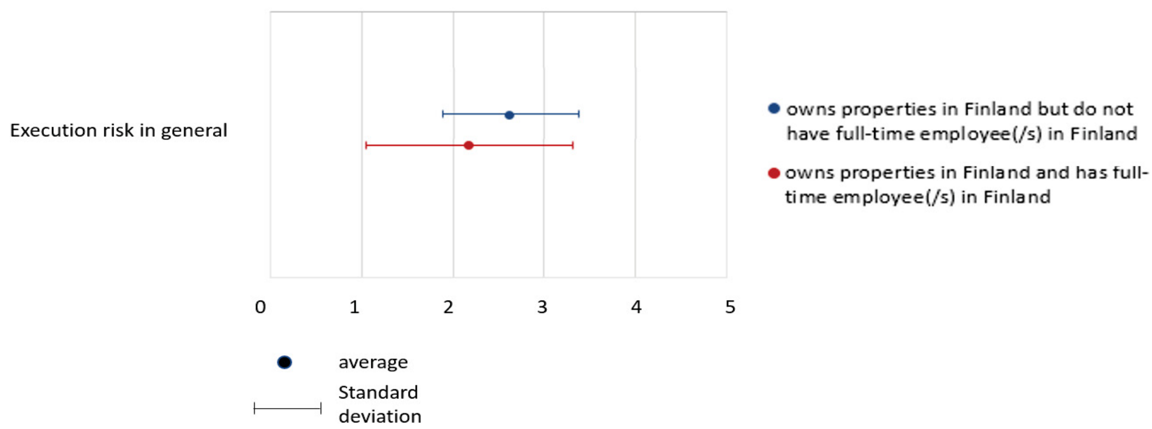

Figure 30 Execution risk

Execution risk was not divided in to sub-factors as no definition of the word or its sub-factors were found. Due to this, an open-ended question about execution risk was put in the survey. The question was "What kind of executional (operative) challenges have you come across in Finland? (for example, relating to management, due diligence, acquiring, exit etc.)" and answering was not mandatory. All together 13 answer were gotten to this question from which four answered that there are not at all or minimal level of executional risk in Finland. The answers mention finding the right management company, differences in the degree of professional processes, exit because of the size of the market, lack of competence in property management, slowness in decision making and slow leasing process. All the answers are presented in Table 2.

I think one of the main challenges is that the (international) investor needs to have local management (in-house or not) that it trusts. Finding this is a true challenge.
good Quality of Asset Management is missing
(Larger) foreign investors execute usually higher degree professional processes (investment analysis, DD, structuring etc.) than local investors, which might lead challenges with regards to time constrains if bidding/acquisition processes for example are to be managed within tight timelines.
None.
Exit because of the size of the market
None
Lack of competence in property management
Slowness in decision making.
Very few good local joint venture partners. Banks are very conservative and cumbersome.
Minimal, most risks for us relate to the liquidity of the market outside of the prime assets.
Leasing usually takes longer time than the rest of the Nordics
nothing
There is very limited amount of capable service providers for asset management. This limits international interest on assets requiring serious management.

Table 2 Answers to the open-ended questions about execution risk in Finland

Other challenges

Figure 31 presents the results of the factors regarding other challenges. The challenge group other challenges included only sub-factors, as “other challenges in general” doesn’t mean anything specific and thus was excluded from the survey. The group of other challenges is also a very wide thus only four most mentioned in the literature were asked in the survey. The four sub-factors are: cultural challenges, discrimination, geographical barriers and market size. The sub-factor of market size was the most challenging factor in the whole survey. It was more challenging for the respondent category that didn’t have employees in Finland (average of 3.8) than the other respondent category (average of 3.3). The least challenging factor from these sub-factors was discrimination, which was more of a challenge for the respondent category that has employees in Finland (average of 1.7) than the other respondent category (average of 1.4). In addition, the standard deviations are quite high in this challenge group as in many pervious groups also.

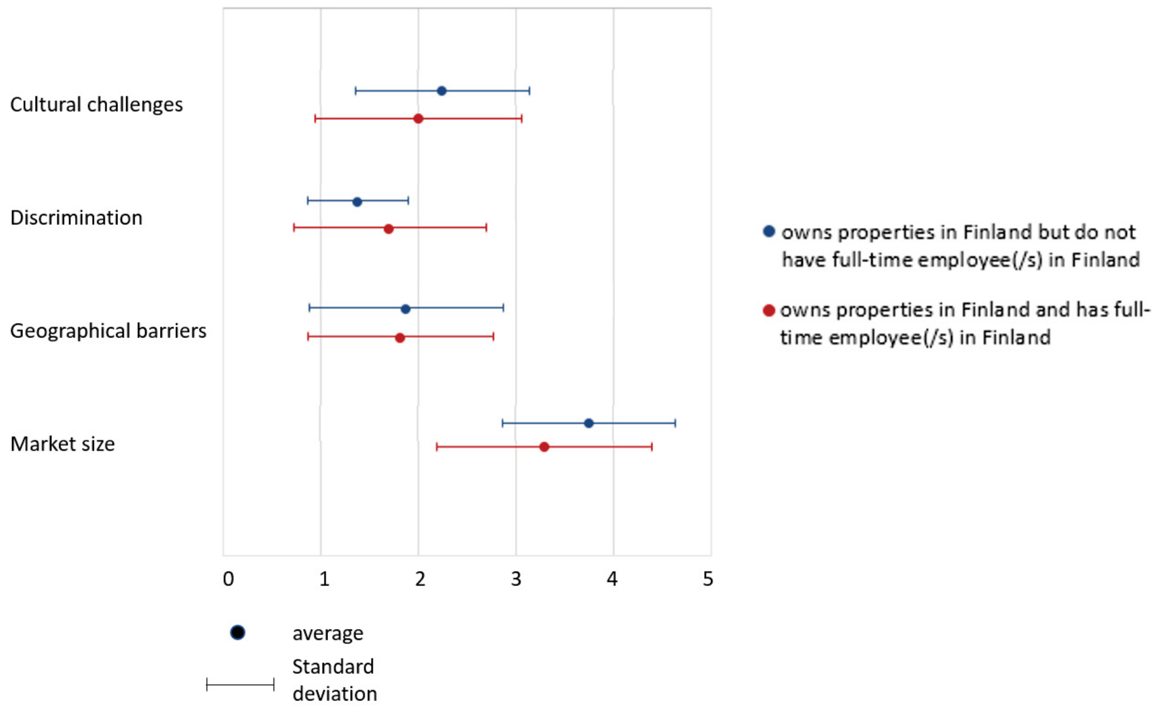

Figure 31 Other challenges

In the end of the survey was presented an open-ended question “Have you come across any other challenges in Finland?” Answering the question was optional. All together 12 answer were gotten to this question from which four answered that there are no other challenges in Finland. The answers mention relations with local partners, lack of group contribution rules, high labour costs, understanding the land lease agreements, language, low liquidity outside the Helsinki Metropolitan Area and lease structures. All the answers are presented in Table 3.

Foreign investors ability to enter into the market might in some extent be dependent on how good relations foreigners are able to establish with local players, especially in case no local branch is established.
Yes, group contribution rules (lack of). Applies to taxation.
No
High labour costs
Nothing worth to mention
The understanding of land lease agreements (in Sweden the mre are possibilities for the municipality to increase the land lease during the land lease period; however in Finland that is not possible). The lease law in general (no restrictions on the length of the lease as in Sweden)
language
low liquidity outside HMA
Minimal, most risks for us relate to the liquidity of the market outside of the prime assets.
UFN leases is a challenge due to very short WALT
no
No- due to the € currency Zone the challenges are little

Table 3 Other challenges

6 Conclusions

This chapter will summarize the findings of the research. First the key findings of the study will be presented. After that the results are discussed. Finally, the quality and reliability of the study will be observed and topics for further research will be proposed.

6.1 Key Findings of the Research

The aim of this thesis is to recognise the challenges that foreign investors face when investing in the Finnish real estate market. This is done by finding out, with the help of a survey, what are the challenges that foreign investors emphasise in Finland out of the general challenges identified in the literature review.

The challenge groups covered in the thesis include: transaction costs, information disadvantages, political risks, economical risks, currency risk, liquidity, execution risks and other challenges. Some of these groups have been divided in to sub-factors in order of gaining more detailed information from the survey.

There is not much literature about the challenges foreign investors face in the Finnish real estate market, thus it is hard to draw conclusions based only on the literature. Nevertheless, when taking in to account the results of the survey, it is possible to draw conclusion on what are the challenges that the foreign investors emphasize in the Finnish real estate market.

Based on the literature and survey, it is clear that foreign investors gain benefits from investing cross-border, but not without costs as they face many challenges too. When comparing these challenges to the general challenges of direct real estate investments, it can be noticed that they are mostly the same (see for example Goetzmann and Dhar 2005). It could be said that investing cross-border magnifies the challenges and benefits of investing in direct real estate.

The main conclusions of the thesis are that the most challenging factors for foreign investors in Finland are liquidity, which is strongly linked to market size. Economical risk was also experienced as a notable challenge when investing in the Finnish real estate market. In addition, it was discovered that foreign investors that do not have employees in Finland face more challenges than the foreign investors that do have employees in Finland. The least challenging factors where economical risks and political risk.

6.2 Discussion

First challenge group was transaction costs. Transaction costs and its components can vary notably between countries. According to the survey transaction costs in general were regarded as the third most challenging group (average of 2.3). This can be because Finland is one of the most expensive countries in Europe when speaking in terms of price levels of consumer goods and services (Eurostat 2016b). Thus, transaction costs in Finland are probably on high level when comparing to the rest of Europe or the world. Surprising was that the sub-factors of registration of title and sales and transfer taxes was regarded as challenges even though they are obligatory and exactly the same to everyone. Thus they should be already priced in the markets and not be regarded as a challenge. In addition, registration of title is nowadays very easy to carry out and costs only EUR 120, which doesn’t sound very expensive. Thus it can be concluded that the respondents have understood the term “registration of title” wrong and include some other expenses to it such as legal advisor fees.

According to the literature informational disadvantages should be a notable challenge for foreign investors as real estate market is not an efficient market in sense of information and foreign investors have often less vital market information. Yet in the survey information costs in general was the third least challenging group, even though scoring an average of 2.0. This could because many foreign investors have nowadays employees or a partner in Finland which moderates the challenges concerning informational disadvantages. Information costs were divided in to two sub-factors: lack of transparency and information asymmetries between local and foreign investors. Surprisingly both factors were regarded more challenging than information costs in general. This could be because the main factor was not named as information disadvantages in general but as information costs in general, which can be misunderstood.

Political risk is regarded as an important market selection criteria, yet there is no consensus on the definition of the word or its sub-factors. According to the literature Finland’s own political risk is low, yet political risk of other countries or even regions affect Finland’s political risk, for example the choices of other European Union members can affect Finland’s political risk. According to the survey political risk is not seen as a notable challenge (average of 1.6) which is the second least challenging factor group. According to the open-ended question, if some political risk was identified, it probably related to foreign relations or complex and rapidly changing legislation. An interesting point was that two of the respondents think that foreign investors might see dependency to Russia more strongly than domestic investors.

The literature indicates that economical stability is an important market selection criteria. At the moment real estate market overrides the weak economy in Finland, which is due to two long-term trends: substantial increase in liquidity and strong urbanisation trend. According to the survey economical risk in general was the second highest challenge class in Finland (average of 2.6. Economical risk was divided in to three sub-factors: economic growth of Finland, inflation of Finland and debt level of Finland. The sub-factor economic growth was clearly the most challenging sub-factor of the group (average of 3.1) which is not surprising as the economical growth of Finland is among the slowest in Europe.

Currency risk should be an important challenge for foreign investors according to the literature. Yet the arrival of Euro has decreased this risk notably in Finland, which can also be seen in the survey as currency risk in general was regarded as the least challenging factor (average of 1.4). This can be due to the fact that many of the investors that answered the survey where from Europe.

According to literature, liquidity issues are mostly regarded as an important factor in market selection process, although it is not widely researched. The number of investors and transaction volume in Finland has been growing in the last years which indicates that also the liquidity has been improving. In the survey, liquidity risk in general was regarded as the most challenging factor group. Liquidity risk was divided in to two sub factors, funding liquidity and trading liquidity, from which both were found equally challenging. The importance of liquidity is because of the small market size of Finland.

There is not much research about execution risks, but it is said to be an important challenge in cross-border investment. Acording to the survey execution risk truly was regarded as a challenge (average of 2.3) by most investors. Execution risk was not divided in to sub-factors as no definition of the word or its sub-factors were found. According to the open-ended question about execution risks in Finland, the challenge of finding a good asset management company popped out several times, which can indicate that this is truly a challenge for foreign investors in Finland. Also, differences in the degree of professional processes which effect the timeline of these processes was mentioned.

The challenge class of other challenges was difficult as so many factors could be considered as challenges at least on some level. Yet as the literature about challenges in the Finnish real estate market is quite slim, only a few other challenges have been identified including investment opportunities, market maturity and organisational factors. In the survey, the challenge group "other challenges" included only sub-factors, as "other challenges in general" doesn't mean anything specific and thus was excluded from the survey. The sub-factors that were asked in the survey were: cultural challenges, discrimination, geographical barriers and market size. The sub-factor of market size was the most challenging factor in the whole survey (average of 3.4). Market size was also mentioned in the open-ended question about execution risk; small market size increases exit risk. In the end of the survey was presented an open-ended question about other challenges that foreign investor has faced in the Finnish real estate market. The issue of language, high labour costs and understanding the legislation of Finland was brought up.

All in all, it is evident that the issue of liquidity, which is strongly linked to market size, is the most challenging factor in the Finnish real estate market. After these factors comes economical risk, from which especially the sub-factor of economical growth of Finland was regarded as a challenge. Transaction costs and execution costs were regarded as equally challenging, even though some researchers argue that some transaction costs are already priced in the markets and thus would not be regarded as a challenge. The factor of informational disadvantages was among the least challenging factors which is also surprising because based on the literature and the general feeling on the market it could be expected to be more of a challenge. Political risk and currency risk are not regarded as substantial challenges according to the survey. These results were quite expected, excluding transaction costs and informational disadvantages.

On the other hand, the results of the survey were quite similar among the challenge groups as the averages of the challenge groups varied only from 1.4 to 2.8. Thus there is no very clear differences between the challenge groups. Also, the standard deviations of the answers were quite large and ranged from 0.6 to 1.4. This indicates that the different challenges can be interpreted differently. This was also noticed in the literature, as many of the factors had many varying definitions. Noticeable was also the fact, that the respondent category which didn't have employees in Finland regarded almost all factors in the survey more challenging than the other respondent category which has employees in Finland. This is logical as having employees in the target country certainly simplifies and eases operating in the country. Foreign investors have clearly noticed this as, on the grounds of the investor list prepared for the survey, over half of the foreign investors have at least one employee in Finland.

It is important to note and consider the highly exceptional situation in the real estate market all over Europe. The amount of capital searching for real estate investments in Europe is enormous at the moment. The pressure to buy properties has grown which effects the decision making of investors. It could be considered that as the pressure to buy properties grows the significance of these challenges reduces as capital needs to be invested in something and Finnish real estate provides good investment opportunities due to higher level of return compared to many other property markets and relatively stable and safe investment environment (Catella 2017 b, 5).

In addition, literature implies that challenges that foreign investors face when investing cross border have diminished over time as markets have become more financially integrated. This indicates that these challenges identified in this thesis are slowly diminishing. The same message can be interpreted from the open-ended questions as some respondents were in the opinion that there are no notable differences in the challenges of European countries due to the European Union and the Euro.

6.3 Research Quality and Reliability

The literature review is based on a large variety of literature from which majority is good quality academic research. Firstly, challenges are covered on a global level and after that the focus is shifted on Finland. There is not much literature on the challenges faced in the Finnish real estate market. However, this is acceptable as the survey was made for filling the gap in the literature.

The author faced a few issues while writing the literature review. Firstly, there was not so much research about this topic and secondly most literature on this subject does not define words such as challenge, barriers, risks, obstacles, et cetera. These words are difficult as they can mean different things to different people. The scope of this thesis was hard to decide, but in the end the word challenges was used as a superordinate so that these factors can be covered in this thesis, as there is not so much research about this topic and because literature uses these words in contradiction and thus it wasn’t possible to separate them.

Only professionals and experts were chosen for the recipient list of the survey, which should increase the validity of the results as they should give relevant answers to the topic. The survey was also tested by multiple persons from the field of real estate investments for ensuring that the survey is understandable and logical. The respondents should not have a motivation to change their answers because of the anonymity of the survey. Even though there were some problems with the anonymity in the respondent category of “does not currently own properties in Finland” as only one reply was given.

While making the survey a few more issues appeared. Firstly, the challenge factors are not commensurable; some factors are larger concepts than others are, which makes it difficult to compare them with each other. In addition, some challenges affect only foreign investors and some effect also domestic investors. Some of the factors cannot be controlled by the investor and some can. In addition, some of the factors might not even be regarded as challenges by some authors, as some regard them as equal challenge for all investors, domestic and foreign, or some think that the challenge is already priced in the markets. Thus, the challenges identified in this thesis cannot fully be compared with each other, but conclusions of the importance of each factor can still be drawn.

While preparing the survey the question of the length of the survey and the number of factors included was considered carefully. Many factors had multiple definitions and depending on these definitions they included different number of sub-factors. Every factor could not be included as the survey must not be too long in order to receive enough replies. In the end, the decision on what to include and what not to include was made based on literature, which were the most used definitions. Also, colleagues at Catella Property Oy were consulted on the matter.

Another issue was the definition of foreign investor. There are many foreign investors in Finland that have employees in Finland. When calling some of the contacts in the investors list they refused to answer as they did not regard themselves as foreign investors. Thus, the question is whether a Finnish employee for a foreign investor can be regarded as a foreign investor or not. In this thesis, this was decided based on the origination of the capital. If they invest foreign capital they are regarded as foreign investors. On other kind of segmentation could be more informative but much harder to implement.

The non-response rate of the questionnaire was high, 67 per cent. Non-response rates on surveys have been rising over time and response rates for academic surveys are usually notable lower than for example surveys conducted by the government (Groves et al 2009, 186-187). Spring time is very busy time for foreign investors as they try to finalise their investments and divestments before summer holidays. In addition, the persons contacted were mostly from executive level and are even busier all the time. Thus, the response rate can be seen sufficient in this survey.

The standard deviations of the challenge factors were quite high, varying from 0.6 to 1.4. The standard deviations are presented in Figure 4. This indicates that the different challenges can be interpreted differently. This was expected as the interpretations issue was experienced already in the literature. The issues of different interpretations can bee seen in the results of the registration of title which should not be a notable challenge contrary to the results of the survey. The Likert scale used in the survey can also be an issue, as people are used to that, that the most neutral reply is in the middle (3). In this survey, it wasn’t so clear, as some could argue that one (not a challenge at all) was the most neutral answer. Despite the relatively wide spread of the answers, the researcher considers the survey reliable.

Factor	Standard deviation
Transaction costs in general	**1.1**
Registration of title	0.9
Real estate agent fees	1.0
Legal fees to the lawyers or conveyancer	1.4
Sales and transfer taxes	1.1
Information costs in general	**0.9**
Lack of transparency	1.1
Information asymmetries between local and foreign investors	1.2
Political risk in general	**0.7**
Economical risk in general	**1.2**
Economic growth of Finland	1.0
Inflation of Finland	1.1
Debt level of Finland	0.9
Currency risk in general	**0.6**
Liquidity risk in general	**1.1**
Funding liquidity (the ability to gain funding)	1.0
Trading liquidity	1.1
Execution risks in general	**1.0**
Cultural challenges	1.0
Discrimination	0.9
Geographical barriers	0.9
Market size	1.0

Table 4 Standard deviations of the factors measured in the survey

6.4 Further Research

The number of studied challenges factors was quite large and thus were studied in a quite narrow way and the focus was kept on a general level. According to the survey the most challenging factor group was liquidity. There are many studies relating to the liquidity of property company shares and real estate investment trusts, yet liquidity of direct real estate investments is not as widely researched. It could be interesting to study the liquidity of the Finnish real estate market separately.

Another interesting topic which came up when deciding the scope of this thesis was that some of these challenges effect both, foreign and domestic investors, but what are the challenges that affect only foreign investors in the Finnish real estate market. This would be a very interesting point of view.

Lastly, the availability of high quality real estate asset management was not directly examined in this research but was mentioned by a few respondents in the open answers. This indicates that this might be an important factor and requires more specific research on the topic.

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List of appendixes

Appendix 1. An example email for the survey target persons

Topic: Master’s thesis about the challenges that foreign inventors face when investing in the Finnish real estate market

Dear Sir/Madam,

I'm writing to you in reference to my master’s thesis. The subject of the thesis is the challenges that foreign investors face when investing in the Finnish real estate market. I have made a survey in order to find out these challenges. In the end of the survey contacts details will be asked, but the answers cannot be connected to the contact details, thus the survey is anonymous. The open questions are optional. Please find attached more information of the thesis and the survey.

I hereby ask you to answer a short survey. Link to the survey:
https://my.surveypal.com/Challenges-in-the-Finnish-Property-Market-2017

Thank you very much for your answers! Please do not hesitate to contact me if you have some questions about the thesis or the survey.

Best regards,
Ella Sperling

Appendix 2. The survey

Challenges Foreign Investors Face When Investing in the Finnish Real Estate Market

The purpose of this survey is to gather information of the challenges foreign investors face, when investing in the Finnish real estate market. The research is limited on direct real estate investments.

This survey is part of Ella Sperling's master's thesis for Aalto University. The thesis is made in co-operation with Catella Property Oy.

In the end of the survey participants will be asked their name and company. The survey has been made so, that the contact details can not be linked with the answers, thus the answers are anonymous. The participant list is only for the information of the researcher and will not be published in any form.

The database description according to Henkilöstölaski (523/1999)§10:
https://docs.google.com/document/d/11D-cRjs6jiRpb7...

The company you work for....*

- ◯ owns properties in Finland and has full-time employee(/s) in Finland
- ◯ owns properties in Finland but do not have full-time employee(/s) in Finland
- ◯ does not currently own properties in Finland

On a scale from 1 to 5, do you regard these factors as challenges in the Finnish real estate investment market?

	Not a challenge at all				Is definitely a challenge
	1	2	3	4	5
Transaction costs in general*	◯	◯	◯	◯	◯
Registration of title*	◯	◯	◯	◯	◯

Real estate agent fees *	○	○	○	○	○
Legal fees tothe lawyers or conveyancer *	○	○	○	○	○
Sales and transfer taxes *	○	○	○	○	○
Information costs in general *	○	○	○	○	○
Lack of transparency *	○	○	○	○	○
Information asymmetries between local and foreign investors *	○	○	○	○	○
Political risk in general *	○	○	○	○	○
Economical risk in general *	○	○	○	○	○
Economic growth of Finland *	○	○	○	○	○
Inflation of Finland *	○	○	○	○	○
Debt level of Finland *	○	○	○	○	○
Currency risk in general *	○	○	○	○	○
Liquidity risk in general *	○	○	○	○	○
Funding liquidity (the ability to gain funding) *	○	○	○	○	○
Trading liquidity *	○	○	○	○	○
Execution risks in general *	○	○	○	○	○
Cultural challenges *	○	○	○	○	○
Discrimination *	○	○	○	○	○
Geographical barriers *	○	○	○	○	○
Market size *	○	○	○	○	○

What kind of political risks have you come across in Finland?

What kind of executional (operative) challenges have you come across in Finland? (for example relating to management, due diligence, acquiring, exit etc.)

Have you come across any other challenges in Finland?

Contact details

The survey has been made in a way that the contact details can not be linked with the answers, thus the answers are anonymous. The contact details are collected just for the information of the researcher and will not be published or shared with anyone.

Name*

Company you work for*

Appendix 3. The database description

DATABASE DESCRIPTION

29.12.2016

Henkilötietolaki (523/199) §10

1. Database Maintenance

Administrator:
Ella Sperling
ella.sperling@aalto.fi
+358505016502

2. Database Name

Survey for "Challenges Foreign Investors Face When Investing in in the Finnish Real Estate Market".

3. The Function of the Database

The information will be used for academic research.

4. The Content of Database

The answers of the respondents.

5. Official Sources of Information

Online survey

6. Confidentiality

The administrator will not give out personal information to external parties without the person's consent.

7. Transferring of Information

The Information will not be transferred outside EU or ETA.

8. Access to Information

Only the register administrator will have access to the information.

Appendix 4. The results of the survey

The company you work for....	**Transac-tion costs in general**	Registra-tion of title	Real estate agent fees	Legal fees tothe lawyers or conveyan-cer	Sales and transfer taxes	**Informa-tion costs in general**	Lack of transpa-rency	Informa-tion asymmet-ries between local and foreign investors	**Political risk in general**	**Economi-cal risk in general**	Economic growth of Finland	Inflation of Finland	Debt level of Finland	**Currency risk in general**	**Liquidity risk in general**	Funding liquidity (the ability to gain funding)	Trading liquidity	**Execution risks in general**	Cultural challenges	Discrimi-nation	Geograp-hical barriers	Market size
A	**2**	1	2	2	2	**1**	3	2	**1**	**2**	2	2	2	**2**	**4**	2	4	**2**	2	1	2	4
A	**1**	1	1	1	3	**2**	3	3	**1**	**2**	3	1	1	**1**	**3**	2	4	**2**	2	2	2	4
B	**2**	2	4	3	2	**1**	1	1	**1**	**4**	5	4	3	**1**	**1**	2	2	**2**	1	1	1	4
A	**2**	1	1	1	1	**1**	2	4	**2**	**4**	4	4	1	**1**	**4**	4	4	**4**	4	4	4	5
A	**2**	1	1	1	1	**1**	2	4	**2**	**4**	4	4	1	**1**	**4**	4	4	**4**	4	4	4	5
A	**1**	1	1	1	3	**1**	1	1	**1**	**3**	3	1	3	**1**	**1**	3	1	**1**	1	1	1	3
A	**3**	2	3	3	3	**2**	2	3	**1**	**2**	2	2	3	**2**	**3**	3	3	**3**	2	2	2	2
B	**5**	2	3	5	2	**3**	4	3	**1**	**2**	3	3	1	**1**	**2**	2	2	**2**	3	1	1	2
A	**4**	3	4	5	4	**3**	3	3	**2**	**3**	3	3	2	**2**	**4**	3	4	**4**	3	2	2	4
A	**1**	2	2	1	1	**2**	4	5	**2**	**2**	3	3	2	**2**	**3**	1	1	**1**	3	2	2	3
A	**3**	2	2	3	3	**2**	2	2	**2**	**3**	3	3	2	**2**	**4**	3	4	**2**	2	2	2	4
A	**1**	1	1	1	2	**1**	1	1	**1**	**3**	3	1	1	**1**	**2**	2	1	**1**	1	1	1	2
A	**4**	2	2	4	2	**3**	2	4	**2**	**2**	3	2	3	**1**	**2**	2	4	**2**	3	2	2	4
A	**1**	1	1	1	1	**1**	3	2	**1**	**1**	2	3	2	**1**	**3**	3	3	**1**	1	1	1	2
A	**3**	2	4	4	4	**3**	4	4	**2**	**1**	2	2	2	**2**	**2**	3	3	**3**	1	1	1	4
B	**2**	2	2	4	2	**2**	2	2	**1**	**1**	4	1	1	**3**	**3**	4	3	**2**	2	1	1	4
B	**2**	1	1	1	2	**3**	3	3	**2**	**3**	3	2	2	**1**	**4**	4	4	**2**	2	2	3	5
B	**4**	4	3	3	4	**3**	4	4	**2**	**4**	4	2	2	**1**	**4**	5	4	**4**	4	2	2	4
B	**3**	4	2	2	4	**3**	2	4	**2**	**4**	4	3	3	**2**	**2**	3	3	**3**	2	1	1	3
A	**2**	2	2	2	3	**2**	1	1	**1**	**1**	2	1	1	**1**	**1**	2	2	**1**	1	1	2	3
A	**3**	1	2	2	4	**1**	1	1	**4**	**5**	5	4	4	**2**	**4**	4	4	**3**	1	1	1	3
A	**1**	1	1	1	1	**1**	1	1	**1**	**2**	2	2	2	**1**	**1**	1	1	**1**	1	1	1	1
A	**2**	1	1	1	1	**2**	2	2	**1**	**1**	2	1	1	**1**	**3**	2	2	**2**	2	1	1	3
C						**3**	3	3	**1**	**3**	2	1	1	**1**	**2**	2	2	**3**	2	2	3	4
B	**2**	1	2	2	2	**3**	4	4	**2**	**3**	4	3	3	**1**	**3**	3	3	**3**	2	1	3	4
Average	**2,3**	1,7	2,0	2,3	2,4	**2,0**	2,4	2,7	**1,6**	**2,6**	3,1	2,3	2,0	**1,4**	**2,8**	2,8	2,9	**2,3**	2,1	1,6	1,8	3,4
Standard deviation	**1,1**	0,9	1,0	1,4	1,1	**0,9**	1,1	1,2	**0,7**	**1,2**	1,0	1,1	0,9	**0,6**	**1,1**	1,0	1,1	**1,0**	1,0	0,9	0,9	1,0

A. owns properties in Finland and has full-time employee(/s) in Finland

B. owns properties in Finland but do not have full-time employee(/s) in Finland

c. does not currently own properties in Finland